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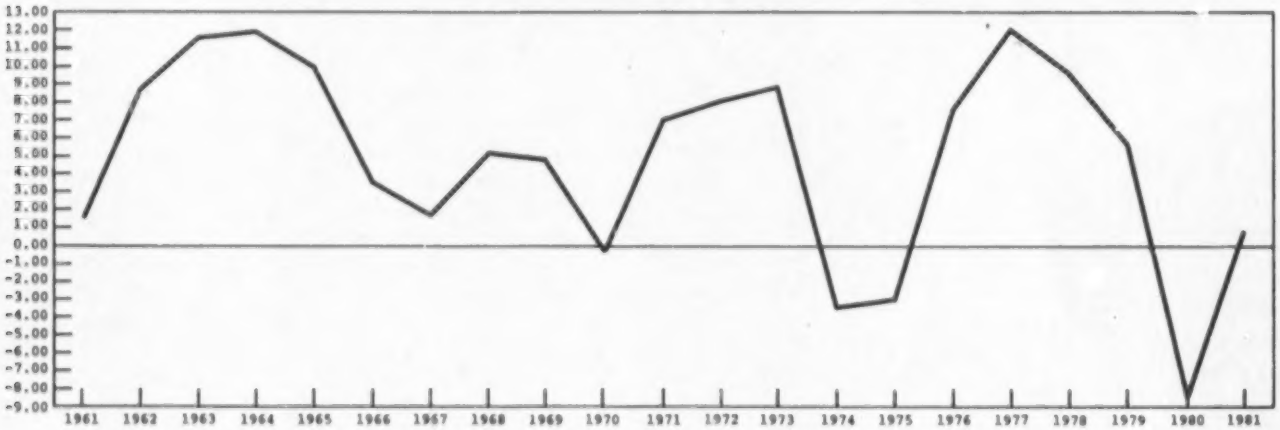
FinanceFacts

A Monthly Publication on Consumer Financial Behavior FEBRUARY 1982

Percent Change in Consumer Installment Credit Outstanding,
Year End, 1972 Dollars
(Seasonally Adjusted)



Source: Federal Reserve and National Consumer Finance Association

Borrowing by households accelerated sharply in the cyclical expansion which began in 1975. Consumer installment credit outstanding increased more than 90% during the five-year period ending in the first quarter of 1980, thereby providing financing for a significant portion of consumer expenditures in the cyclical upswing. However, despite the positive cyclical benefits of credit availability in the recovery, the rapid growth of consumer credit caused concern among some observers that the household sector was becoming overextended with debt. Citing high credit growth rates, proponents of alarm reported consumer debt levels as a fundamental economic weakness as the economy moved into the 1980's.

Although rapid increases in consumers' debt levels are an undeniable fact of the post-war era, by themselves these increases are not necessarily causes for alarm. First of all, much of consumer credit is used to purchase goods and services - including automobiles, home repairs, and health care - which provide their users high investment returns. Second, increases in any liability are less worrisome, if they are matched by increases in the means of repayment. As was discussed last month, consumers' liquid assets increased as rapidly as installment debts over the period 1960-1981 (See Finance Facts for January, 1982). Over the same period personal income also rose at approximately the same pace as installment credit and households' liquid assets. Third, the growth trends of many economic indicators have been distorted in recent years by inflation, or, in other words, by the declining value of the dollars in which the indicators are measured. As an example, it can be misleading to say that gross national product increased 10% in a particular year if over the same period money lost 10% of its

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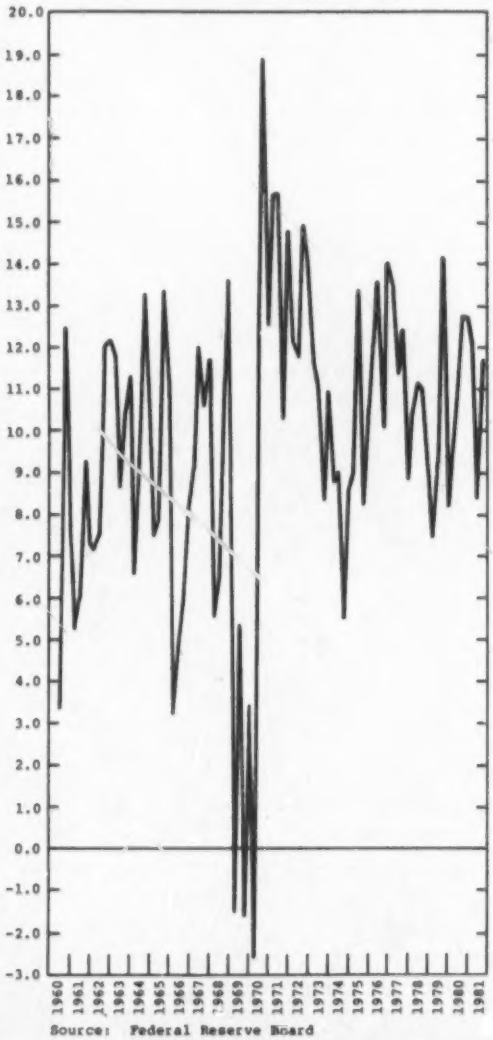
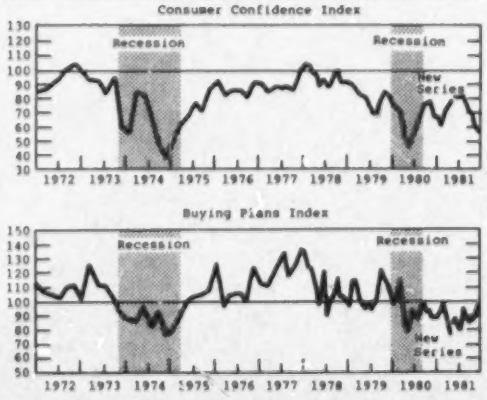
Percent Growth in Consumer Sectors' Liquid Assets

(By Quarter, Seasonally Adjusted, Annual Rate)



Source: Federal Reserve Board

Consumer Attitudes
1969-70 = 100



Source: The Conference Board

HOUSEHOLD SECTOR LIQUID ASSETS

Despite the onset of two recessions in as many years, the household sector's stock of liquid assets continued to increase rapidly in nominal terms during 1980 and 1981. Information from the Federal Reserve's Flow-of-Funds Accounts show that households' holdings of currency, deposits, and money market mutual fund shares grew at a rate of approximately 11% during 1980 and the first three quarters of 1981, about the same annual rate as in 1977-79.

PERSONAL INCOME

Personal income increased $4.4 billion in December to a seasonally adjusted annual rate of $2,492.1 billion, the Commerce Department reported. Personal outlays increased $13.8 billion to $1,976.3 billion. In November, personal income increased $14.2 billion, based on revised estimates. The smaller December increase was primarily attributable to a decline of $0.7 billion in wages and salaries following an increase of $8.6 billion in November. The decline reflected lower employment and average weekly hours.

In constant (1972) dollars, disposable personal income increased $0.4 billion in November, compared with $4.1 billion increase in October. Constant dollar personal consumption expenditures increased $3.0 billion in November, following a decline of $4.4 billion in October.

CONSUMER EXPECTATIONS

Consumer confidence declined in December, its fourth loss in as many months, but the decline was relatively small. The Conference Board's Consumer Confidence Index (1969-70=100) retreated to 56.1, down four points from November and off more than 25 points since August. Buying plans, however, rose in both November and December with the Index reaching 98.3, up from 89.9 in November.

The decline in consumer confidence was related to the perceptions of present conditions. The number of repondents who felt conditions were "bad" increased in December, as did the number who felt jobs were "hard to get." On both issues, the negative exceeded the positive by a factor of four. Perceptions of the future were split, with an increase in pessimism for both business conditions and the job outlook, while the number expecting better conditions also increased. Those expecting the same dropped considerably. On balance, the expectational component of the survey shows little change from last month.

LEADING ECONOMIC INDICATORS SHOW SMALL ADVANCE

The composite index of leading indicators, prepared by the Bureau of Economic Analysis of the Department of Commerce, showed a 0.6% increase in December based on preliminary data. If subsequent revision doesn't reverse the direction of change, this would be the first increase in the index since July (up 0.1% after revision). The only other increases in this index in 1981 was March (1.1%) and April (1.6%). On the basis of more complete data, the index decreased only 0.2% in November after a larger 1.8% decline in October. A month earlier, the Bureau reported preliminary estimates showing the index decreased 0.3% in November. The preliminary data puts the index down 6% from its 1981 peak level of 137.5 in April.

The composite index of coincident indicators, which is a monthly approximation of current aggregate economic activity, decreased 1.4% in December based on preliminary data. This follows declines in November of 1.0% and October of 1.5% based on more complete data. The composite index stands at 136.6 (1967=100), down 4% from its peak in August 1981.

CONSUMER INSTALLMENT CREDIT

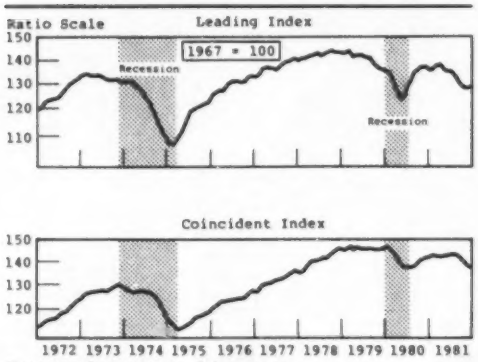
Total consumer installment credit at the end of November 1981 was $328.9 billion. Of this amount, $125.9 billion was outstanding in automobile credit, $61.2 billion in revolving credit, $18.4 billion in mobile home credit and $123.5 billion in all other credit (home improvement, personal loans and other consumer goods credit).

PRICE INDEXES

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.4% in December on a seasonally adjusted basis. This increase is about the same as in the two preceding months. For the fourth quarter of 1981, the CPI-U rose at a seasonally adjusted annual rate of 5.3%. This increase is the smallest since second quarter 1976. The third quarter 1981 annual rate was 13.5%. For the calendar year 1981, the index rose 8.9%. Unadjusted, the CPI-U rose 0.3% in December to 281.5 (1967=100).

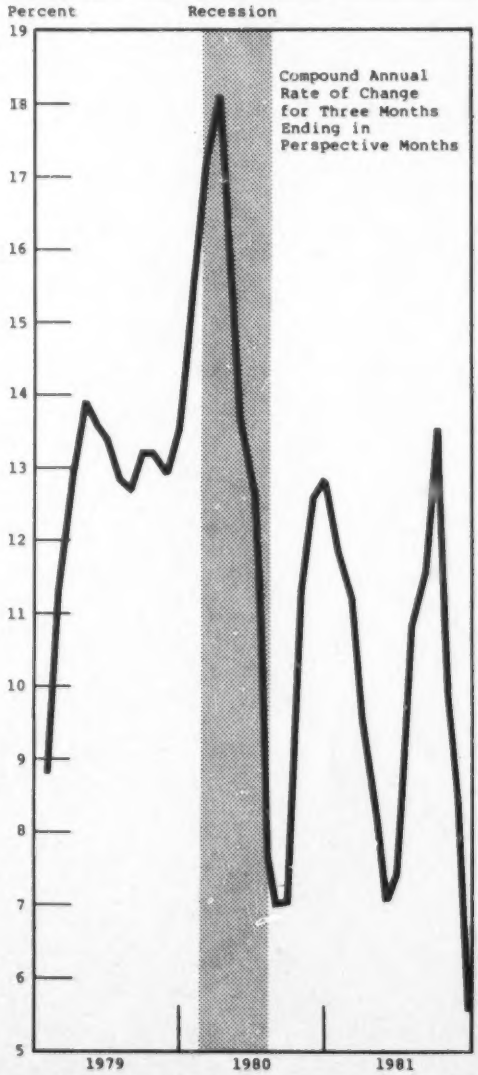
The Producer Price Index for Finished Goods increased 0.3% from November to December, seasonally adjusted. The December rise follows increases of 0.5% and 0.6% for November and October, respectively. Before seasonal adjustment, the Index moved up 0.3% to end the year at 275.3 (1967=100). For the year 1981, the Finished Goods Price Index rose 7.0%, the 1980 increase was 11.8%.

Composite Indexes By Months 1972-1981



Source: Department of Commerce

Change in Consumer Price Index - All Urban Consumers 1979-1981



Source: Department of Labor

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purchasing power. In such an event real output would in fact be stagnating rather than increasing at a rapid 10% rate. To avoid problems of interpretation of this sort, it is common practice today to express economic time series in both real or constant (deflated) dollar terms as well as in nominal or current (undeflated) dollars. In this way the effects of inflation on the series can be visualized more easily.

The chart above shows the annual growth rates of consumer installment credit over the past two decades when consumer installment credit is expressed in constant 1972 dollars. Interestingly, when deflated dollars are used, the growth trends in the later 1970's are very much like the trends in earlier business cycles. Rather than exhibiting abnormally large increases in real terms, the chart shows that a large part of the rapid debt increase of the 1970's was a reflection of inflation rather than a true behavioral trend. Although an inflationary environment offers consumer (as well as businesses and governments) many good reasons for adding to their liabilities, the yearly real growth rates of consumer credit in the 1970's were not notably higher than in the less inflationary 1960's.

The chart shows that growth of consumer installment credit in real terms has exhibited substantially similar trends during each of the three major expansion periods of the last two decades (1961-69, 1971-73, and 1975-79). After increasing at a very low rate or actually declining during recessions (1961, 1970, and 1974-75) consumer installment credit growth in real terms increased relatively rapidly during recoveries before peaking, with the highest growth rate generally well in advance of the business cycle peak. In the longer expansions (1961-69 and 1975-79) the growth rate peak occurred at about the same rate and at approximately the same point in the recovery. In both cases the rate peaked at about a 12% real growth rate approximately half way through the expansion. In both expansions the growth rate then declined gradually before becoming negative during the recessionary period that followed. In the shorter expansions 1972-75, the upswing in credit growth was about the same, but the peak came much closer to the end of the expansion. Nevertheless, to the extent the past three cycles can serve as a guide, real growth of consumer credit in the 7-8% range might reasonably be expected within a year or so of the start of a solid recovery from the current recession.

Thomas A. Durkin

FinanceFacts

A Monthly Publication on Consumer Financial Behavior MARCH 1982

Ratio of Consumer Installment Credit Extended to Personal Consumption Expenditures

(By Quarter, Seasonally Adjusted at an Annual Rate)

Source: Federal Reserve Board and Department of Commerce

The view seems widespread that consumer credit has ballooned in recent years, posing potentially serious questions about the financial health of the important consumer sector. Media observers, as well as public policy makers, have focused on credit growth as cause for alarm, and the President even imposed formal consumer credit controls for a few months in 1980. However, like other complex phenomena, consumer credit growth requires a close look for full understanding. In particular, in an economy characterized by long term growth and short and long term inflation, any trend must be examined in proper context before its importance can be fully assessed. For this reason, this issue of Finance Facts presents the third in a series of perspectives on consumer installment credit growth. For ease of comparisons, charts presented in January and February (Ratio of Consumer Installment Credit Outstanding to Consumer Sector's Liquid Assets and Percent Change in Consumer Installment Credit in Constant Dollars, respectively) are also updated this month on page 2.

The chart on this page shows the ratio of the Federal Reserve Board's statistical series on consumer installment credit extended by all credit grantors to the Commerce Department's series on personal consumption expenditures. By itself, the chart reveals some interesting insights into consumer credit trends, but a closer look at the numbers reveals some additional findings. A few comments are in order.

First, the relationship between credit extended and consumption expenditures obviously fluctuates over the course of the business cycle. Typically, this ratio peaks before the peak in general business conditions, and it begins to rebound before the cyclical trough. To an extent, then, it appears that consumers' credit use is contracyclical, tending to dampen booms before peaks and to lead the economy upward

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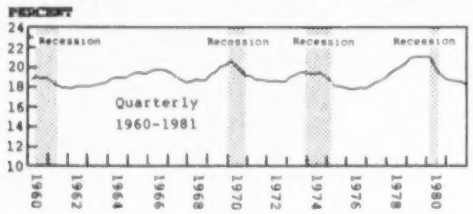
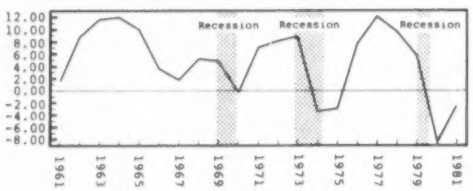
Ratio: Consumer Installment Credit Outstanding to Consumer Sectors Liquid Assets



Source: Federal Reserve Board, National Consumer Finance Assoc.

Percent Change in Consumer Installment Credit Outstanding

(Year-end, 1972 Dollars, Seasonally Adjusted)



Source: Federal Reserve Board, National Consumer Finance Assoc.

CONSUMER SECTOR'S SHORT-TERM FINANCIAL CONDITION

As the economy continues on its downward path, the American consumer continues to show a strong net short-term financial condition. With an installment debt level of just over 18% of liquid assets for the fourth quarter of 1981, the consumer sector is in much the same short-term liquidity position as at beginning of 1975 and at earlier cyclical troughs. (See Finance Facts January 1982 for further discussion.) For the fourth quarter of 1981, the rate of change for installment credit outstanding shows an increase of about 0.3% over the third quarter while consumers' liquid assets increased about 2.3% for the same period.

In constant dollar terms consumer installment credit outstanding decreased in 1981 for the second consecutive year. However, the decline moderated somewhat in 1981, with constant dollar consumer installment credit declining at a 3% rate in 1981 compared to 8.5% in 1980. (See Finance Facts February, 1982.)

PERSONAL INCOME

For January, personal income increased $3.8 billion to a seasonally adjusted annual rate of $2,494.7 billion and personal outlays increased $14.6 billion to $1,985.4 billion. In December, personal income declined $1.1 billion and outlays increased $6.0 billion, based on revised estimates.

CONSUMER INSTALLMENT CREDIT

Consumer installment credit outstanding at the end of 1981 was $333.1 billion. Of this amount, $125.8 billion was outstanding in automobile credit, $65.4 billion in revolving credit, $18.5 billion in mobile home credit and $123.5 billion in all other credit (consisting of personal loans, home improvement and other consumer goods credit). Over the year 1981, consumer installment credit increased an unadjusted $19.6 billion, comprised of increases for automobiles of $9.4 billion, revolving credit of $5.5 billion, mobile home credit of $1.2 billion and all other credit of $3.5 billion.

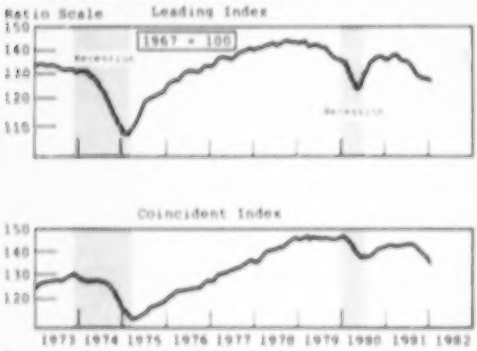
For December 1981, consumer installment credit decreased an adjusted $173 million. Increases were recorded by commercial banks ($881 million), savings and loans ($57 million) and gasoline companies ($9 million). Decreases were registered by finance companies ($414 million), credit unions ($369 million), retailers ($306 million) and mutual savings banks ($31 million).

LEADING ECONOMIC INDICATORS DECLINE

Preliminary data released by the Department of Commerce placed the composite index of leading indicators down 0.6% in January, at 127.0 (1967=100). This decline follows a 0.3% decrease in December and also a 0.3% decrease in November. The December revision wiped out a preliminary 0.6% increase reported last month. For the year ending in January 1982, the composite index has decreased 6.1% with only two months showing increases, March (1.3%) and April (1.1%). On the technical side, seven of the nine components of the index underwent revisions inducing minor changes in the index but not significantly affecting its pattern.

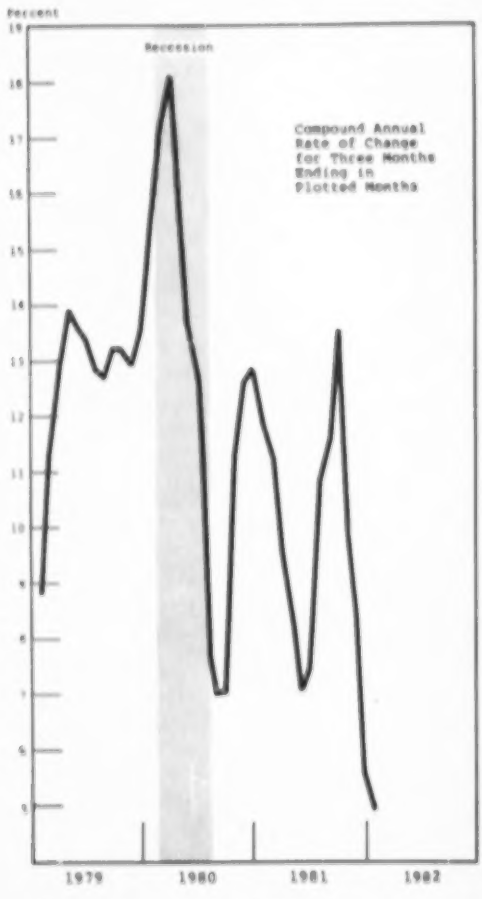
The composite index of coincident indicators, which is a monthly approximation of aggregate economic activity, decreased 1.6% in January. On a revised basis, this index decreased 1.5% in December and decreased 0.9% in November. At 134.4 for January (1967=100), this index is 5.4% below January 1981 and 5.8% below its peak in August. This index is now at its lowest point since January, 1978.

Composite Indexes
By Months 1973-1982



Source: Department of Commerce

Change in
Consumer Price Index -
All Urban Consumers 1979-1982



Source: Department of Labor

PRICE INDEXES

The Consumer Price Index for All Urban Consumers (CPI-U) rose a modest 0.3% in January, the U.S. Department of Labor reported. This is the fourth straight month of increases less than or equal to 0.5%. In September (the fifth month previous) the rate of increase was 1.1%. The component of this index with the largest increase was medical care (0.8%) with declines appearing in the categories of transportation (0.2%) and apparel (0.1%). On an unadjusted basis, the CPI-U increased 0.4% in January to a level of 282.5 (1967=100), placing it 8.4% above the January 1981 level.

The Producer Price Index for Finished Goods moved up 0.4% from December to January, seasonally adjusted. The January rise follows increases of 0.3% for December and 0.5% for November. Before seasonal adjustment, this index moved up 0.8% to 277.4 (1967=100). For the year ending in January 1982, the Finished Goods Price Index rose 6.3%, with finished consumer foods increasing 2.2%, energy goods up 11.2% and all other finished goods up 6.2%.

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during recessions. Second, credit growth in relation to consumption grew in the later 1970's before peaking in 1978, but the growth did not appear explosive as popularly believed. From a low of 17.8% in the second quarter of 1975 the ratio rose less than 5 percentage points to a high of 22.7% in the second quarter of 1978. Although this rise began from a higher base and was slightly larger in absolute terms, it actually was smaller in percentage terms than the cyclical upswing that began in 1961 (27% vs. 28%, respectively). Third, the ratio of credit extended to consumption peaked well before consumer credit controls were imposed in March 1980. Although credit controls are usually mentioned as the cause of the consumer credit collapse that occurred in 1980, the downturn in relation to consumption actually began much earlier and followed standard cyclical patterns. This suggests credit controls may have been somewhat less influential than widely believed. Fourth, although consumer credit figures are issued with a lag which makes this ratio less useful as a predictive indicator, the ratio continued to decline through December, 1981. Thus, the most recently available figures (December, 1981) do not yet signal a pending cyclical upturn.

Turning to matters not readily visible in the chart, it should be recalled that content of the Federal Reserve's series on installment credit has changed over time. For example, beginning in 1971 consumer credit on oil company credit cards was redefined as installment credit rather than noninstallment credit. If this definitional change had not been made the charted ratio would have been 1 1/2 to 2 percentage points lower throughout the 1970's than otherwise. In addition, small retailers have gradually abandoned their charge account plans in favor of bank credit cards. Charge accounts are not counted in installment credit in the Federal Reserve's figures, but bank credit-card credit is included, even though some of this credit is used to replace charge accounts. Unfortunately, it is not possible to remove consistently the charge-account component from the installment credit series, even if its inclusion distorts trends over time to some extent. However, if it were possible to make this adjustment, it would reduce the charted ratio still further in the 1970's. Together with also excluding oil company credit to make the series consistent over time, the result would be cyclical peaks in the ratio in the 1970's not unlike the peaks in the 1960's.

In sum, attempting to examine on a consistent basis the relationship between consumer installment credit extended and personal consumption expenditure mitigates the widespread view that installment credit growth was explosive in the 1970's. Although this relationship exhibits a distinct cyclical pattern, adjusted peaks in the 1970's do not appear to be greatly above cyclical peaks in the 1960's, although troughs in the 1970's appear lower. Even though turns in this ratio historically have preceded business cycle turning points, unavoidable lags in data production reduce the usefulness of this ratio as an important predictive indicator. Nevertheless, the most recently available figures through year-end 1981 have not yet signalled an imminent economic upturn.

Thomas A. Durkin

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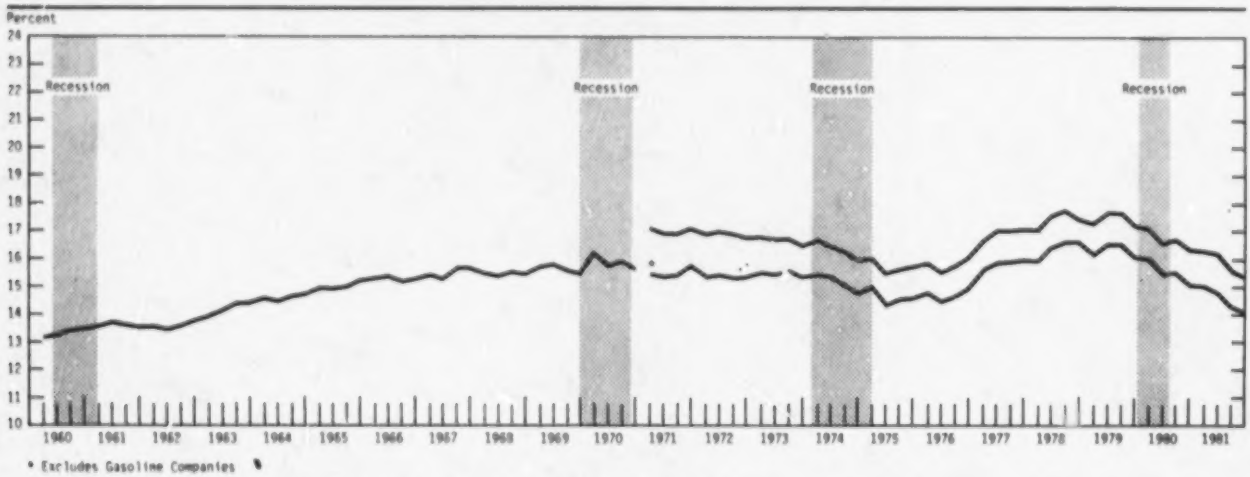
A Monthly Publication on Consumer Financial Behavior APRIL 1982

Ratio of Repayments of Consumer Installment Credit
to Disposable Personal Income



* Excludes Gasoline Companies

National Consumer Finance Association Chart. Source: Federal Reserve Board and Department of Commerce

Consumer installment borrowing grew rapidly in nominal dollar terms over the past two decades, but by itself this fact offers no important conclusions. In the inflationary environment of recent years credit rose, but so did wages, salaries, incomes, assets, and virtually everything else. Without a frame of reference, reporting that some economic indicator grew relatively rapidly in nominal dollars provides little useful information. For this reason each of the issues of Finance Facts this year has provided a different perspective on consumer credit growth. January's issue looked at consumer installment credit outstanding in relation to consumers' liquid assets, February's edition examined installment credit growth in constant (deflated) dollars and the March issue studied installment credit extended in relation to personal consumption expenditures. In each case the conclusion emerged that consumer credit growth in recent years has not been very rapid, casting into doubt the view often heard in Washington that consumer credit growth has been "explosive" and should be controlled. To continue this series of perspectives on credit growth, each of these charts (and this month's chart) will be updated through the first quarter of 1982 in the June issue of Finance Facts.

This month's chart is the ratio of consumer installment credit repayments to personal disposable income; analysts frequently refer to this ratio as consumers' "debt burden." Repayments means payments made, typically monthly, on consumer installment credit including automobile credit, revolving credit, mobile home credit and personal loans. Disposable personal income refers to personal income available for spending - in other words personal income less payments for taxes and social insurance. The chart contains two curves after 1970, the lower one highlighting the

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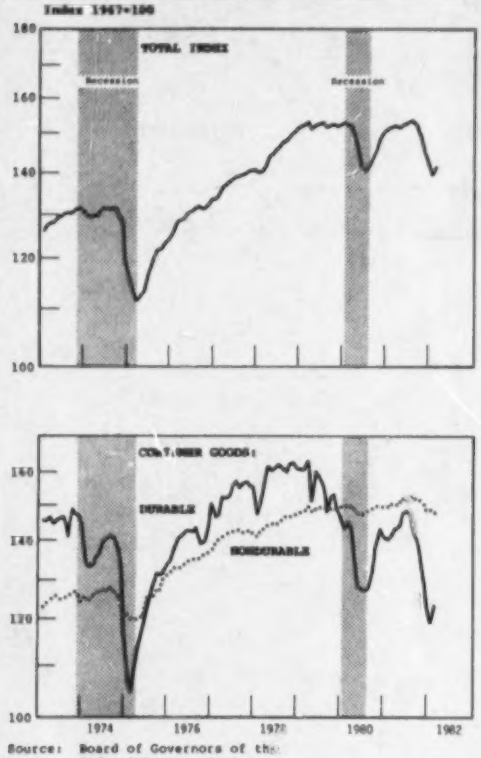
Index of Industrial Production

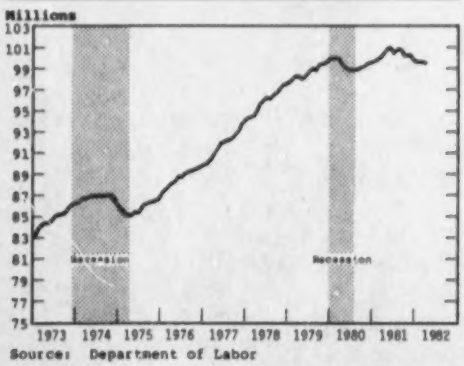
by months (seasonally adjusted) 1973-1982



Source: Board of Governors of the Federal Reserve System

Total Employment

By Months (Seasonally Adjusted) 1973-1982



Source: Department of Labor

INDUSTRIAL PRODUCTION

Industrial production increased an estimated 1.6% in February rebounding from sharply curtailed levels of earlier months. At 141.8 (1967=100) the February index was 1.0% below the December 1981 level and 6.6% below its level a year earlier. The January level is now estimated to have declined 2.5% from December rather than the previous estimate of 3%.

The increase of 1.6% in February is the first upward movement in the index since its cyclical peak in June 1981 when the index was 152.9. Gains in February were widespread with output of autos and trucks rebouding from a low level in January. Production of consumer goods increased 1.7% in February, durable goods increased 2.8%, nondurable goods were up 0.9%. A further weakening occurred in the output of building, mining, and farm equipment.

CONSUMER INSTALLMENT CREDIT

At the end of January 1982 consumer installment credit outstanding amounted to $330.1 billion. Of this, commercial banks held $148.2 billion (45% of total), finance companies $88.9 billion (27%), credit unions $45.9 billion (14%) and all others combined $47.1 billion (14%). Automobile credit accounted for $125.5 billion (38%), revolving credit $61.4 billion (19%), mobile home credit $18.4 billion (6%) and all other credit (consisting of personal loans, home improvement and other consumer goods credit) $124.8 billion (38%) of the end of January total.

For January 1982, consumer installment credit showed a small increase of $443 million when adjusted for seasonal variation. The largest increase was recorded by credit unions ($689 million), followed by savings and loans ($172 million) and mutual savings banks ($103 million). Finance companies showed a decrease of $597 million. All other holders combined increased $76 million for January.

EMPLOYMENT

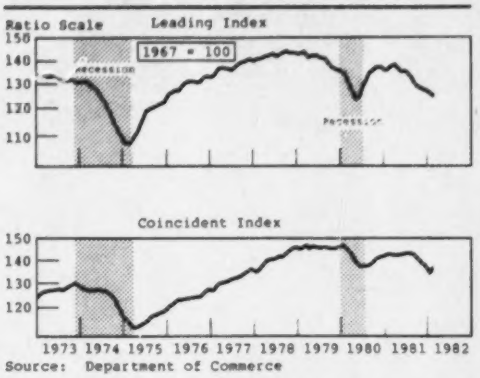
The employment situation continued weak in March, with the rate of unemployment increasing to 9.0% from the 8.8% level in April. The March rate equals that last seen in May 1975. Nonfarm payroll employment declined by 220,000 during March with total employment at 99.5 million. Total employment is down just under one million from a year ago, having peaked in July at 100.9 million. For the first quarter of 1982, total employment has averaged 99.6 million.

LEADING ECONOMIC INDICATORS

The composite index of leading indicators decreased 0.3% in February to 124.9 (1967=100) while the composite index of coincident indicators, which is a monthly approximation of aggregate economic activity, increased 0.7% to 135.1 (1967=100).

On the basis of more complete data, the leading indicators decreased 1.2% in January and also decreased 0.8% in December. The revision of the leading indicators altered previous estimates for January and December which had shown declines of 0.6% and 0.3%, respectively. If the preliminary estimate for the coincident indicators is not revised, the February data would show the first increase since July 1981. At present, the composite index of leading indicators is 6.9% below the same period a year ago and the composite index of coincident indicators is 5.2% below its year ago level.

Composite Indexes
By Months 1973-1982

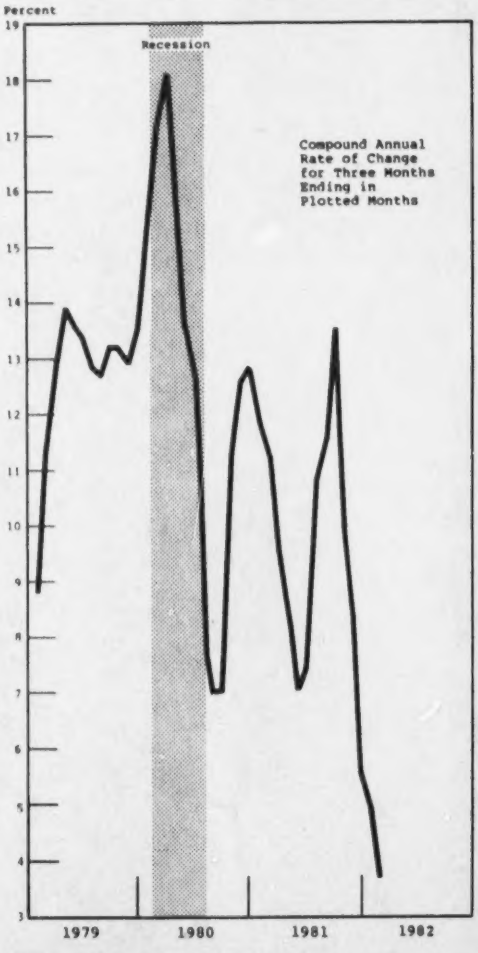


Source: Department of Commerce

PERSONAL INCOME

Personal income increased $12.1 billion in February to a seasonally adjusted annual rate of $2,509.9 billion. Personal outlays increased $15.6 billion to $2,008.4 billion. In January, revised estimates show increases of $5.8 billion ($2,497.7 billion annual rate) in personal income and $20.8 billion ($1,992.8 billion annual rate) in personal outlays.

Change in
Consumer Price Index -
All Urban Consumers 1979-1982



Source: Department of Labor

PRICE INDEXES

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.3% before seasonal adjustment in February to 283.4 (1967=100). This translates to an increase of 7.7% from February 1981. On a seasonally adjusted basis, the CPI-U rose 0.2% in February following a 0.3% rise in January and is in line with the moderate rates of increase that became evident in October 1981. Since October, this index has risen at a seasonally adjusted annual rate of only 4.5%.

Contributing to the deceleration in consumer prices, the Producer Price Index for Finished Goods edged down 0.1% in February on a seasonally adjusted basis. This follows increases of 0.4% or less in each of the preceding 3 months and was the first decline since February 1976. Before seasonal adjustment, this index was unchanged at 277.4 (1967=100), up 5.4% over the year.

Gregory D. Luetscher

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debt burden ratio on a definitionally consistent basis, and the upper one allowing for the 1971 redefinition by the Federal Reserve staff of installment credit repayments to include gasoline company credit card credit as installment credit.

The chart shows that the debt burden ratio rose slightly during the 1960's from about 13% in 1960 to about 16% in 1970. Looking at the lower curve after 1970, since it provides definitional consistency with the 1960's, the debt burden ratio declined from its 1970 peak until mid 1975 when it had slipped below 14 1/2%. From this low the ratio rose again reaching a second peak in the 16+% range in 1978. Since 1978 debt burden has declined sharply and steadily reaching 14% at year end 1981, a level not seen since early 1963.

The chart demonstrates that the debt burden ratio is somewhat cyclical with rises coming during business upswings and declines during business contractions as consumers conserve their liquidity. However, probably the most noteworthy aspect of the chart is how consumers have maintained their installment credit burden at approximately the same level over a long time despite changing economic and credit market conditions. Rather that indicating imprudence of consumers and creditors or an overabundance of credit in the later 1970's, as is so often heard in Washington, the debt burden record of the period is not much different from earlier experience.

The chart of consumers' installment credit burden hardly indicates that consumers are in poorer financial shape in early 1982 than during prior recessionary periods. Debt burden at the onset of the 1981 recession was lower than at any of the three prior business cycle peaks in 1969, 1973, and 1980. To find a lower debt burden level at the start or during a recession it would be necessary to go all the way back to the mild 1960 contraction. Thus, despite the myth of recent explosive credit growth, the consumer sector does not appear especially burdened with installment credit in 1982. Barring any drastic income declines in the balance of the current recession, consumers should be able to contribute to an economic recovery beginning later this year.

Thomas A. Durkin

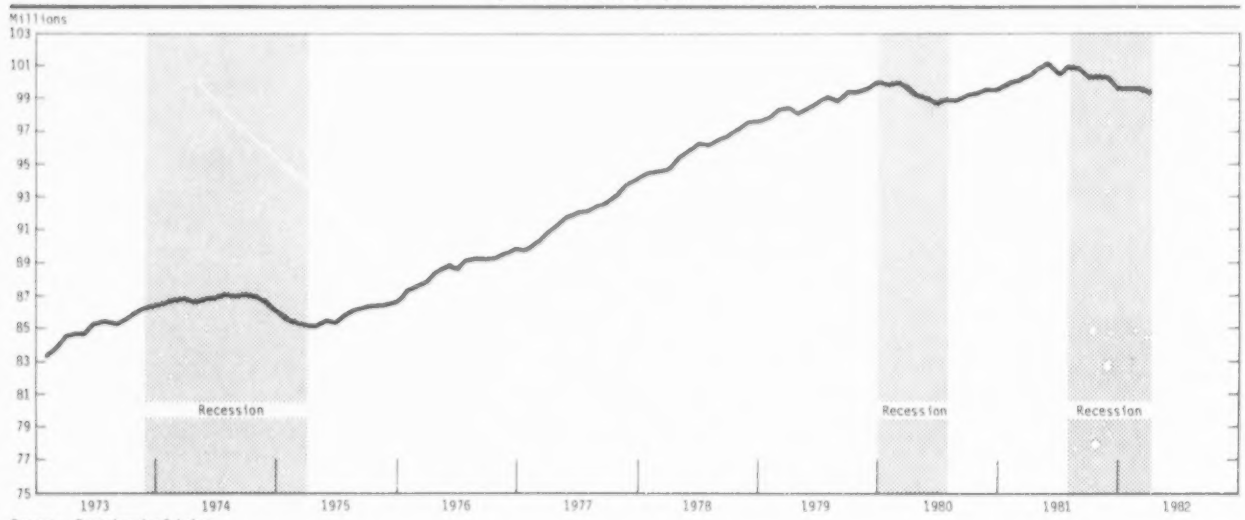
A7475-1 5/24/82

FinanceFacts

A Monthly Publication on Consumer Financial Behavior MAY 1982

Total Employment

By Months (Seasonally Adjusted) 1973-1982



Source: Department of Labor

Available evidence indicates that the recession of 1981-82, while probably not yet quite over, is in the process of winding down. Although preliminary estimates released by the Commerce Department still show real output contracting at a 3.9 percent rate in the first quarter of 1982, all of the decline this time was accounted for by inventory reductions. Real final sales actually increased in the first quarter of this year, in significant contrast to the prior three quarters. Since inventory adjustments have been unusually sharp and are likely to slacken this quarter, the scene is prepared for a return to positive real growth possibly as early as this month or next.

More appropriate for Finance Facts than a review of the economic picture as a whole is examination of the financial condition of the large and important consumer sector. In a few words, the consumer sector is in better shape than might be immediately apparent from the evening news. Although unemployment has risen recently reaching a post World War II high in April, there are also some positive notes that should be mentioned.

First is the trend of consumers' income during the recession. The recession now winding down is unique among the eight since World War II in that it is the only one in which consumers' real (inflation - adjusted), after-tax income did not decline. Not suprisingly, real income growth has not been particularly robust, but it has not fallen as is typical. Among the causes of continued growth in real spendable income are the rapid decline in inflation over the past six months and the Federal tax cuts that went into effect in October. More importantly, income growth should pick up steam in the months ahead. Federal tax rate cuts and Social Security increases in July will add about $45 billion annually to consumers' after tax incomes.

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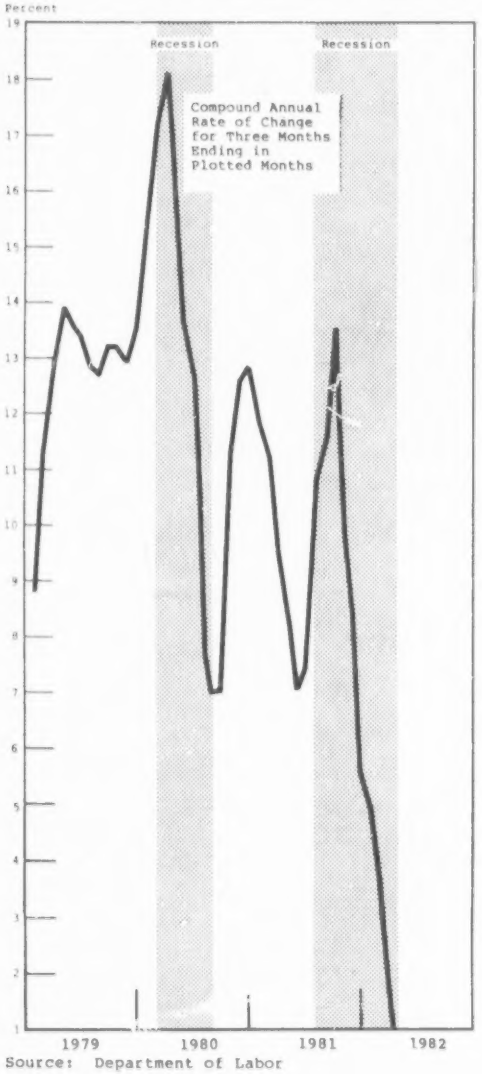
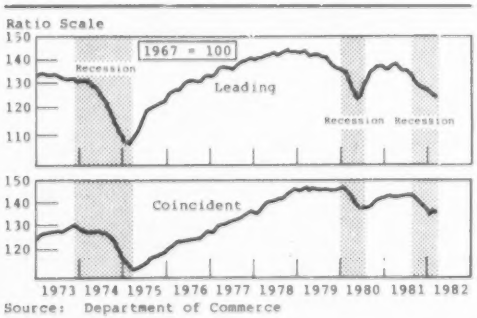
Change in
Consumer Price Index -
All Urban Consumers 1979-1982



Source: Department of Labor

Composite Indexes
By Months 1973-1982



Source: Department of Commerce

CONSUMER PRICES

The Consumer Price Index for All Urban Consumers (CPI-U) declined 0.1% before seasonal adjustment in March to 283.1 (1967=100). After adjustment for normal seasonal variations the decline was 0.3% in March, following moderate increases in each of the preceding five months. The change in CPI-U, seasonally adjusted, has been no greater than 0.5% since October 1981. The 0.3% decline in the official CPI-U was the first decrease since August 1965 and the largest drop since a 0.4% decline in November 1953. The transportation, housing, and food and beverage components all declined in March.

GROSS NATIONAL PRODUCT

In the first quarter of 1982, preliminary estimates show a $3.2 billion decrease in the gross national product (GNP). For the fourth quarter of 1981, the corresponding figure was a $33.3 billion increase. At a seasonally adjusted annual rate, GNP was estimated to be $2,995.1 billion in March. The first quarter decrease was accounted for by a sharp reduction in inventories ($40 billion) following a moderate accumulation in the fourth quarter. Disposable personal income increased $26.8 billion in the first quarter while personal outlays increased $42.8 billion. Real output (GNP adjusted for price changes) decreased 3.9% in the first quarter, the fourth quarter decline was 4.5%.

LEADING ECONOMIC INDICATORS

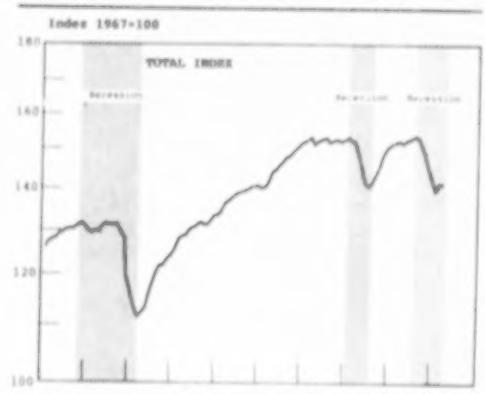
The composite index of leading indicators decreased 0.5% in March to a level of 124.4 (1967=100), according to preliminary estimates. Revised data for February and January show decreases of 0.5% and 1.2%, respectively. The preliminary February estimate was a decline of 0.3%. It has now been eleven months since the leading indicators have shown a positive change, placing it 9.4% below April 1981 and 13.4% below the peak of 143.6 recorded in October 1978.

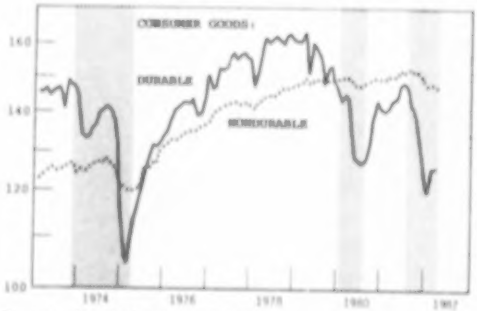
The composite index of coincident indicators, a monthly approximation of aggregate economic activity, also declined, down 0.5% in March to 135.3 (1967=100). The index increased 1.3% in February, based on revised estimates, following a 1.7% decline in January. This index is 7.7% below the peak registered in March 1979 but still 20.5% above the trough of March 1975.

INDUSTRIAL PRODUCTION

In March, industrial production declined an estimated 0.8% following an increase of 1.2% in February and a decrease of 2.0% in January. Reductions in March were widespread and pronounced in home durable goods, business equipment, construction supplies and durable goods materials. For the first quarter of this year, industrial production was 3.3% below the fourth quarter of 1981. At 141.2 (1967=100) the March index was 8.3% below the peak of July 1981.

Index of
Industrial Production
by Months (seasonally adjusted) 1973-1982





Source: Board of Governors of the Federal Reserve System

CONSUMER INSTALLMENT CREDIT

In March, total consumer installment credit outstanding amounted to $327.1 billion. On a seasonally adjusted basis, there was a moderate excess of credit extended to credit liquidated resulting in a net increase of just less than $1.0 billion. Of the $327.1 billion outstanding in March, $146.5 billion (45% of total) was held by commercial banks, $89.6 billion (27%) by finance companies, $45.6 billion (14%) by credit unions, $26.5 billion (8%) by retailers, $11.9 billion (4%) by savings and loans and $7.0 billion (2%) by all others combined.

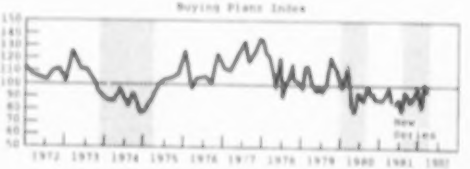
CONSUMER ATTITUDES

Consumer confidence for March was weaker than it has been since the 1980 recession. The Conferece Board's Consumer Confidence Index dropped almost 5 points in March to 53.3 (1969-70=100). Concerning current conditions, consumers were more dissatisfied than anytime since the recession in 1974. The proportions expressing business conditions as "bad" and jobs as "hard to get" hit record levels. Negativism predominated five to one on business conditions, and six to one on employment.

In regard to the next six months, apprehension over employment appeared to predominate. There was also a marked rise in the number fearful of a decline in their incomes in the near future. While many indicators were down for March, it should be noted that consumer expectations are still reassuringly higher than in any previous recession. Consumers should be able to respond quickly to even moderate improvements in business conditions, making for a better than anticipated recovery.

Gregory D. Luetscher

Consumer Attitudes
1969-70 = 100



Source: The Conference Board

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Second is the slowing decline in total employment. Employment peaked last May at a little over 101 million people with jobs (see chart). By April, 1982 total employment had declined 1.7 percent to 99.3 million, but most of the decline occurred during 1981. Employment began to stabilize during the first quarter of this year despite the inventory cutbacks. If inventory disinvestment slows in the second quarter, as is likely, then we may be approaching the trough in total employment. Of course, unemployment could, unfortunately, continue to grow for a while longer, or until the employment upturn growth is sufficient to overtake labor force growth.

A third positive note, one that has been discussed in more detail in prior issues of Finance Facts this year, is the relatively good financial condition of the consumer sector as a whole. Consumers do not appear overburdened with installment debt or debt repayments relative to their available liquid assets or income. This fact, coupled with speeded-up real income growth, leaves consumers' short term debt/asset picture in good shape to support spending growth later this year.

In sum, both income growth and debt burden levels support the contention that consumer spending may be an important force leading the economy back upward later this year. If employment begins to increase, then the tax cuts in the third quarter could give consumers the wherewithal and the confidence to pick up both their saving and their spending.

Thomas A. Durkin

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A7475-1 7/28/82

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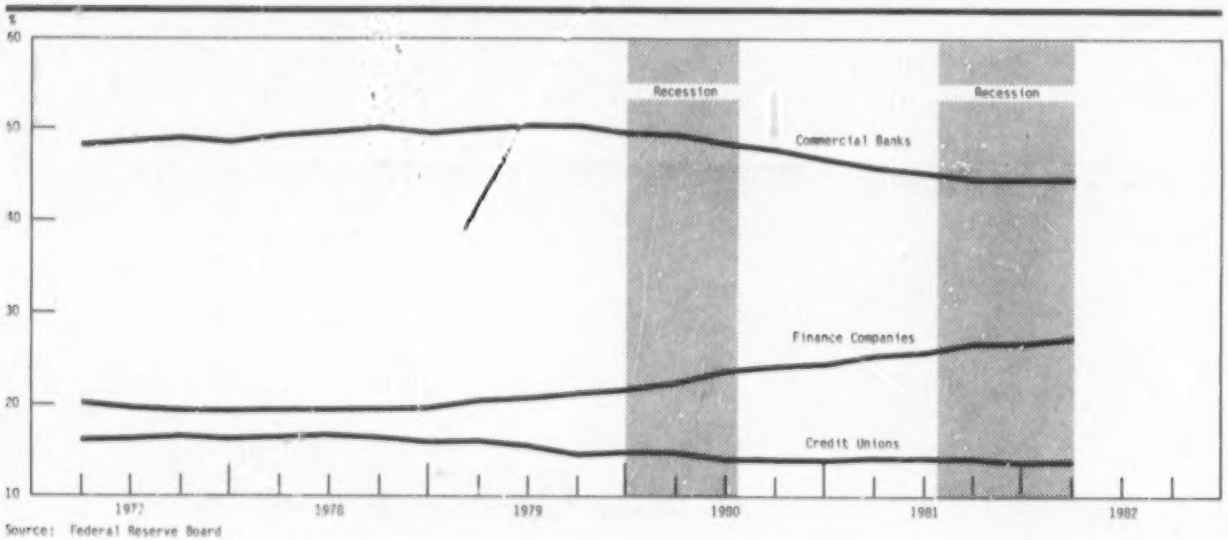
A Monthly Publication on Consumer Financial Behavior JUNE 1982

Shares of Consumer Installment Credit Outstanding
(Percent, End of Quarter)



Source: Federal Reserve Board

The slowdown in consumer credit growth evident since 1979 masks some important structural shifts that have taken place in credit markets during the past few years. Although aggregate consumer credit growth has been sluggish during this period (and has even been negative in real dollar terms in the past two years), not all creditors or creditor groups have experienced the same trends. In particular, consumer credit growth at finance companies has not slowed to the same extent as it has at commercial banks and credit unions. As a result, there has been a noteworthy structural shift as finance companies have gained market share relative to these other consumer creditors. Much of this shift can be attributed to gains in automobile financing by subsidiaries of automobile manufacturers as auto financing became more expensive and less attractive to banks and credit unions forced to pay higher rates for deposits. However, finance companies have also increased their market shares of mobile home financing and of the large "all other" component.

According to Federal Reserve figures, the rate of growth of consumer installment credit outstanding peaked in the second quarter of 1978 when it registered an increase of more than 19 percent in current dollars over the corresponding quarter a year earlier. From that time, year-over-year growth slowed steadily until it reached a rate of less than 1 percent in late 1980 and early 1981. Slow growth has continued since then as the economy experienced the second recession in two years.

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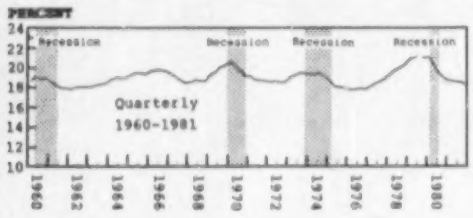
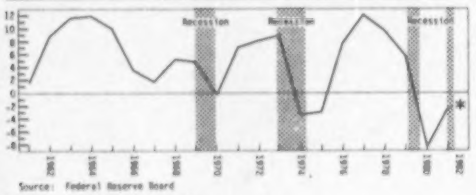
Ratio of Consumer Installment Credit Outstanding to Consumer Sector's Liquid Assets



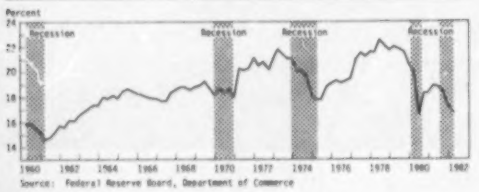
Source: Federal Reserve Board, National Consumer Finance Assoc.

Percent Change In Consumer Installment Credit Outstanding, Year End (1972 Dollars, Seasonally Adjusted)



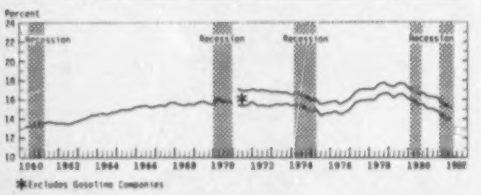
Source: Federal Reserve Board
*NOTE: Percent change from Q1 1981.

Ratio of Consumer Installment Credit Extended to Personal Consumption Expenditures (By Quarter, Seasonally Adjusted Annual Rate)



Source: Federal Reserve Board, Department of Commerce

Ratio of Repayments of Consumer Installment Credit to Disposable Personal Income



*Excludes Gasoline Companies
Source: Federal Reserve Board and Department of Commerce

CONSUMER CREDIT INDICATORS

Regardless of popular preconceptions, available data indicate the consumer sector is not currently overburdened with short-term debt. Review and update of earlier issues of Finance Facts (January-April 1982) produce the following conclusions:

First, the consumer sector has maintained installment debt outstanding at about 20 percent of liquid assets (currency, demand deposits, and money market mutual fund shares) since 1960. The range of 18 1/2 to 19 percent for the four quarters of 1981 is similar to the four quarters of 1960. Rather than indicating deviation from a norm, recent data show continuation of a pattern that has been relatively constant for a generation. (Chart 1).

Second, increases in consumers' current dollar debt levels during the 1970's were not necessarily alarming. Much of consumer credit is used to purchase goods and services that provide high investment returns for the user. Moreover, during periods of high inflation, such as 1975-1980, economic indicators expressed in current dollars can be misleading. When expressed in constant, or inflation-adjusted dollars, the growth of installment credit outstanding peaked in 1977, (well before the imposition of credit controls in 1980) and followed a cyclical pattern similar to that of the 1960's. (Chart 2).

Third, there is a cyclical relationship between installment credit extended and personal consumption expenditures. It appears that consumers' credit use tends to dampen expansions before the peak and to support economic expansions early in recoveries. (Chart 3).

Fourth, the burden of consumer credit measured as the relation between repayments and disposable personal income has been relatively constant over a long period. Consumers have maintained debt burdens measured this way at approximately the same level for many years, despite changing economic conditions. (Chart 4).

CONSUMER SECTOR INDICATORS

	1981				1982	
	I	II	III	IV	I	April
EMPLOYMENT, INCOME, AND SPENDING						
Employment - Household Survey [1]	100,125	100,784	100,654	100,043	99,554	99,340
Disposable Personal Income [2]	$ 1,947.8	1,985.6	2,042.0	2.088.5	2,113.0	2,139.6
Personal Consumption Expenditure [2]	$ 1,810.1	1,829.1	1,883.9	1,908.3	1,945.1	1,951.5
Personal Saving [2]	$ 88.9	106.6	106.9	128.0	115.4	135.4
CONSUMER INSTALLMENT CREDIT						
Total Outstanding [3]	$ 314.7	321.3	326.5	327.9	330.0	--
Percent Change	1.8	2.1	1.6	0.4	0.6	--
Ratio to Consumers' Liquid Assets(%)	18.7	18.6	18.3	18.0	--	--
Ratio: Repayments to Disposable Personal Income (%)	16.3	16.2	15.5	15.2	15.1	--
Market Share (%)						
Commercial Banks	46.1	45.5	44.8	44.8	44.8	--
Finance Companies	25.6	26.0	27.0	26.9	27.4	--
Credit Unions	14.2	14.3	14.3	13.8	14.0	--

1/ Thousands, seasonally adjusted
2/ Billions, seasonally adjusted annual rate
3/ Billions, seasonally adjusted

Source: Federal Reserve Board, Bureau of Labor Statistics, U.S. Department of Commerce

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An important effect of the credit slowdown has been the sharp decline in consumers' debt burden as increases in liquid assets and income have outstripped the slow growth of debt and repayments. (See Finance Facts January-April, 1982 and pages 2 and 3 of this issue.)

The slowdown in consumer credit growth has been more pronounced at banks and credit unions than at finance companies. Consumer installment credit outstanding at commercial banks actually declined at a 5 percent annual rate in 1980 and grew less than 2 percent in current dollars in 1981 compared to peak growth of more than 21 percent in 1978. At credit unions consumer installment credit also declined 5 percent in 1980 before growing only 4 percent in 1981. These rates compare to credit union installment credit growth of 18 percent in 1978 and more than 21 percent in 1976 and 1977. However, very slow and even negative growth at banks and credit unions contrasts sharply with the experience of finance companies. Consumer installment credit at finance companies increased 12 percent in 1980 and 17 percent in 1981 following a 26 percent rise in 1979 that was the largest of any of the competing groups of institutions. As a result of these divergent trends, finance companies' market share of consumer installment credit outstanding increased more than a third between 1977 and early 1982.

The chart illustrates market shares of consumer installment credit outstanding for commercial banks, finance companies, and credit unions from 1977 through 1982's first quarter. It shows that finance companies' share increased from just under 20 percent in 1977 and 1978 to more than 27 percent in early 1982. The pickup in market share of 8 points during this period was achieved at the expense of commercial banks (about 5 1/2 points) and credit unions (a little more than 3 points). Automobile credit accounted for much of the market share change as high market interest rate on deposits made fixed rate automobile lending less attractive to the other institutions. Finance companies' automobile credit market share almost doubled between 1977 and the first quarter of 1982, rising from about 18 1/4 percent to 36 percent in 5 years. During the same period commercial banks' share fell about 13 points, from almost 60 percent to just under 47 percent. Credit unions' share fell almost 5 points from 22 percent to about 17 1/3 percent.

Finance companies also increased their share of mobile home financing from 20 percent in 1979 to almost 25 percent in early 1982. Likewise there was a pickup in the large "all other" area including revolving credit, personal loans, and credit for durable goods other than automobiles. Finance companies' share of 22 percent of "all other" in 1981 and early 1982 was up from less than 20 percent in 1978.

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NATIONAL CONSUMER FINANCE ASSOCIATION
1101 FOURTEENTH STREET, N.W. WASHINGTON, D.C. 20005

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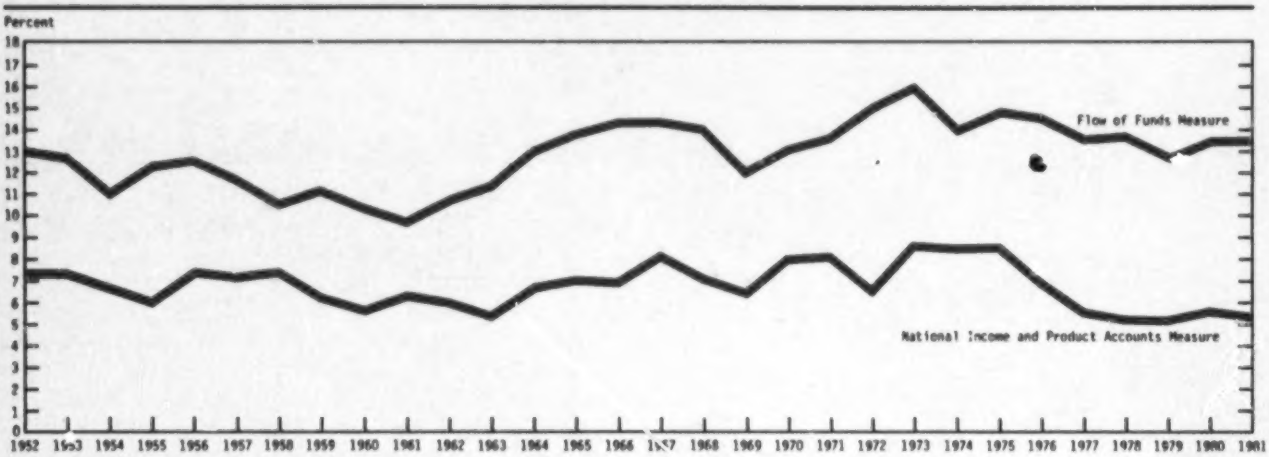
A Monthly Publication on Consumer Financial Behavior JULY 1982

Personal Saving as a Percent of Disposable Personal Income
1952 - 1981



National Consumer Finance Association Chart

Source: Department of Commerce and Federal Reserve Board

The contention is often heard that consumer savings has lagged in the United States in recent years. Comparisons are made with other countries or with domestic savings in more "normal" times (often the early 1970's are offered for comparison). Causes and effects of alleged savings shortfalls are debated and "solutions" are sought through public action. These issues are, of course, very important. The consumer sector is very large in the American economy and provides the majority of the economy's savings. Since savings provides the resources for investment to enhance productivity and encourage economic growth, the issue of adequate savings obviously is critical. For this reason this month's Finance Facts begins a short series on savings in the American economy. This first issue in the series examines sources of statistical information on domestic savings and reviews recent trends in the commonly available savings measures.

The savings measure most often mentioned in press reports is the one provided by the Department of Commerce in the National Income and Product Accounts (NIPA personal savings). NIPA personal savings is calculated by subtracting consumer outlays (largely personal consumption expenditures and interest paid by consumers to business) from disposable personal income (personal income after taxes). Thus, in effect, NIPA personal savings consists of what is left of income after subtracting taxes and current spending. Its main components are personal investments in financial assets (deposits, securities, life insurance and pension reserves, etc.) and investment in personal residences. Somewhat anomalously, NIPA personal savings excludes individuals' purchases of other real assets that would seem to qualify as savings in an economic sense since these purchases are not current consumption. For example, consumers' net investment in

(text continued on back page)

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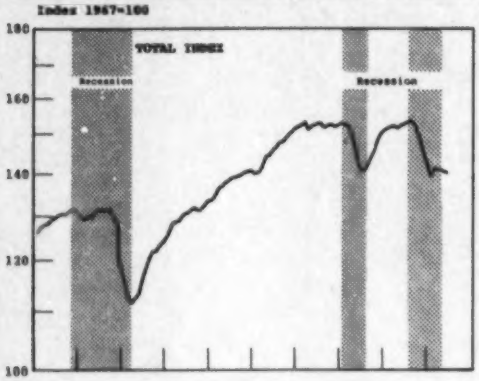
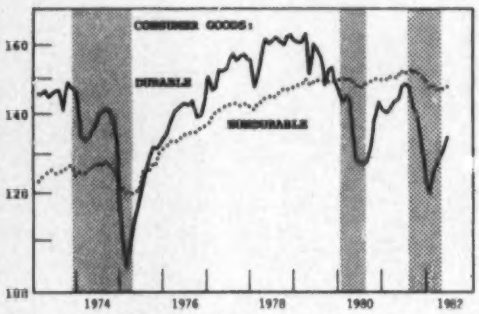
Index of Industrial Production

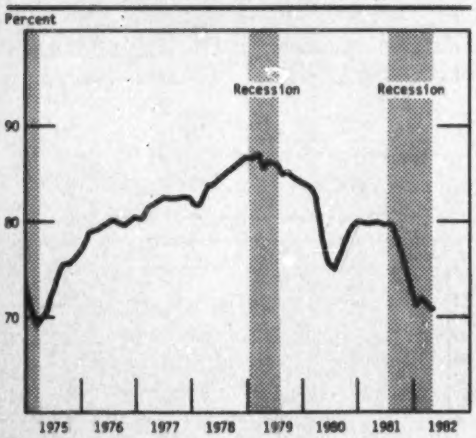
by months (seasonally adjusted) 1973-1982





Source: Board of Governors of the Federal Reserve System

Capacity Utilization - Total Manufacturing



Source: Federal Reserve Board

INDUSTRIAL PRODUCTION

Industrial production edged down an estimated 0.2% in May. This followed declines of 0.8% in each of two preceding months. Business equipment and basic materials output continued to drop sharply while production of consumer goods increased for the second month in a row. The index in May was 8.8% below its recent peak in July, setting at 140.3% (1967=100).

Within consumer goods, consumer durable goods increased 2.3% in May reflecting a sharp rise in automotive products. Autos were assembled at an annual rate in May that was up 10% from the April rate. Nondurable goods production showed a second small increase in May (0.3%).

LEADING ECONOMIC INDICATORS

The composite index of leading indicators increased 0.3% in May to a level of 127.7 (1967=100) according to preliminary Commerce Department data. This index increased 0.2% in March and 1.3% in April based on revised estimates. The preliminary April estimate was an increase of 0.8%. The May increase is the third in as many months. Previous to March there were ten successive months of decline or no growth in the index.

The composite index of coincident indicators decreased 0.2% in May to 133.7 (1967=100) based on preliminary data. On the basis of more complete data for April, this index declined 0.9% (preliminary estimate was a decline of 0.4%) and decreased 0.6% in March. This index is a monthly approximation of aggregate economic activity.

CAPACITY UTILIZATION

Capacity utilization in manufacturing decreased 0.2 percentage point in May to 70.8%. The manufacturing operating rate was lower than it has been since May 1975. This decline followed declines in March of 0.5 percentage point and April of 0.7 percentage point.

Within manufacturing, the utilization rate for the primary processing industries fell 0.4 percentage point to 67.0% in May. The last increase was 1.5 percentage point in February when the rate was 70.0%. The rate for the advanced processing industries edged down 0.1 percentage point to 72.8% in May. The capacity utilization rate for the motor vehicles and parts industry rose substantially in May for the fourth month in a row, but the industry was still operating at less than 60% of capacity.

PRICE INDEXES

The Consumer Price Index for all Urban Consumers (CPI-U) rose 1.0% both before and after seasonal adjustment in May. This 1.0% advance follows a 7-month period where the CPI had an average monthly increase of only 0.3%. The acceleration in May was largely the result of the transportation component (up 0.4%) with gasoline prices increasing 0.9%. From March 1981 through April 1982 gasoline prices declined almost 15%. Other components contributing to the increase in May were housing (1.4%) and food and beverages (0.8%). The index for apparel and upkeep declined 0.1%. The index for home financing costs rose 1.7% as a 2.6% increase in home prices was partially offset by a 0.8% decline in mortgage interest rates.

The Producer Price Index for Finished Goods showed no change from April to May on a seasonally adjusted basis. May marked the third consecutive month of little or no change in this index. Before adjustment, the index rose 0.3% to 277.7 (1967=100).

CONSUMER INSTALLMENT CREDIT

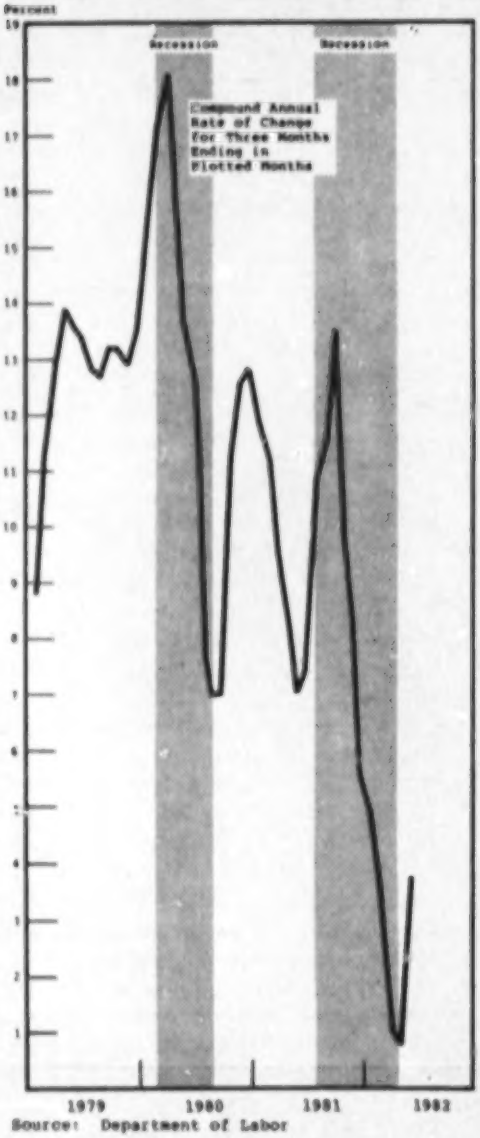
In May, consumer installment credit outstanding amounted to $329.3 billion. On a seasonally adjusted basis, there was a $1.4 billion increase in May, compared to a $1.2 billion gain in April. The May increase was the largest since the $2.9 billion advance last September and represents a 5% annual rate of growth. Automobile credit advanced a seasonally adjusted $1.0 billion in May, the largest advance for that component since October 1981. Within the automobile component, the only holder to show a gain was finance companies with a $1.3 billion advance. Revolving credit advanced just over $0.5 billion and the all other category (personal loans, home improvements and other consumer goods credit) declined.

EMPLOYMENT

The rate of unemployment in June was 9.5%, the same as in May and little different from April's 9.4% rate. Total employment declined by 350,000 in June following an increase of 780,000 in May. Although the overall jobless rate was unchanged, among worker groups the rate for adult men rose 0.3 percentage point to a new high of 8.7%, from 8.4% in May. The rates for adult women (8.1%) and teenagers (22.3%) edged down in June from 8.3% and 23.1%, respectively, in May.

Gregory D. Luetscher

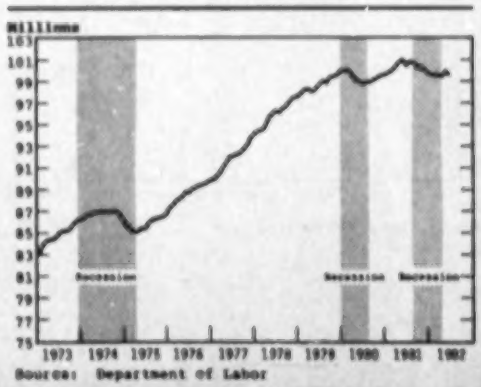
Change in Consumer Price Index - All Urban Consumers 1979-1982



Source: Department of Labor

Total Employment

By Months (Seasonally Adjusted) 1973-1982



Source: Department of Labor

(text continued from first page)

durable goods is counted as consumption in the National Income and Product Accounts, even though such durables like automobiles are not used up immediately and they have a market value that can be "cashed" relatively rapidly.

To make comparisons over time that are free of statistical illusions caused solely by inflation and population growth, NIPA personal savings is usually presented as a percentage rate, specifically the percentage of income after taxes that is represented by personal savings. This percentage rate is reported monthly by the Commerce Department in the Survey of Current Business and in various other statistical releases. In the above chart this NIPA savings rate is the lower of the two lines. The chart shows that NIPA personal savings has hovered between 5 and 6 percent of disposable personal income for the past few years, down from the 8-9 percent range recorded in 1973-75. However, the chart also shows that the NIPA savings rate was abnormally high in 1973-75, and so comparisons with these high savings years is probably not entirely appropriate, at least not by itself. Projections backward over a longer period shows that the NIPA savings rate has fluctuated somewhat, but that actually it shows no real historical trend. The rate in the past 30 years has fallen between 6 and 7 percent in most years with occasional peaks and valleys outside this range. Historical studies extending all the way back into the 19th Century show no evidence of a secular trend in saving behavior, despite the frequent claims that savings is falling.

The chart does appear to indicate, though, that savings was relatively low 1977-81. Nevertheless, even this conclusion is subject to speculation. An estimate of savings from another source, the Federal Reserve Board's Flow-of-Funds Accounts, offers a somewhat different conclusion. Individuals' savings in the Flow-of-Funds Accounts (FOF savings) as a percentage of after tax personal income is recorded in the upper line of the above chart. FOF savings is calculated differently from NIPA savings in that the Flow-of-Funds approach attempts to record directly any changes in assets and liabilities in financial institutions rather than measuring income and spending. FOF savings is also defined somewhat differently than NIPA savings since FOF savings also includes as savings consumers' investments in durable goods (net of depreciation). However, even after subtracting out those parts of FOF savings that cause the definitional inconsistencies with NIPA savings, the Flow-of-Funds measure is still sharply higher and exhibits a different pattern in recent years than NIPA savings. The question is the reason for the discrepancy. A variety of explanations may be advanced as hypotheses, including the suggestion that both measures are simply filled with statistical error. A strong possibility, though, is that the National Income Accounts understate personal income somewhat because of the underground economy and other causes. If, then, consumer outlays are estimated more accurately than understated income, this would lead directly to understatement of NIPA savings. The full reasons for the discrepancy may never be completely known, but watch for an upward revision of NIPA savings when the Commerce Department releases revised and updated estimates later this month.

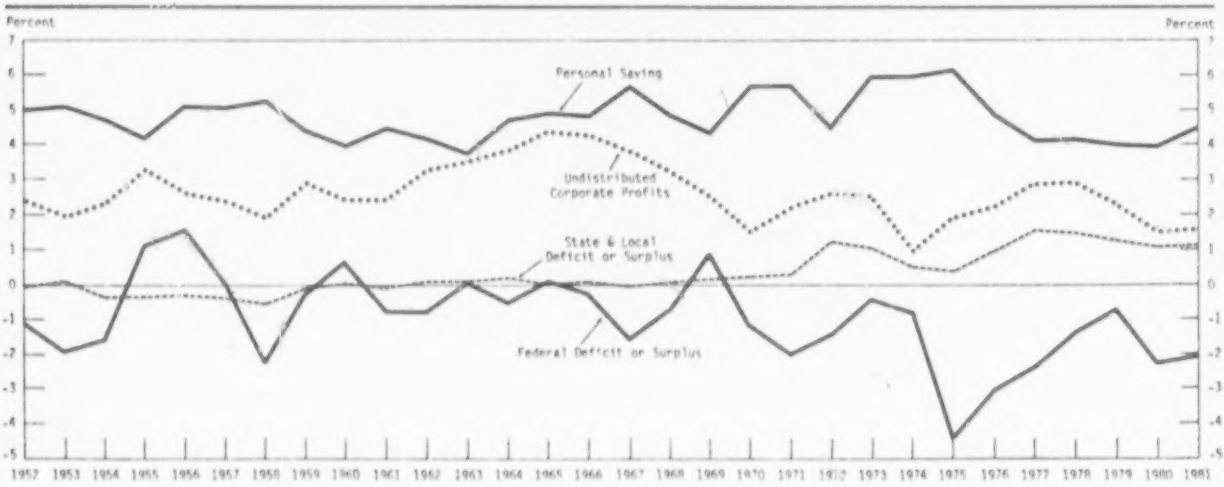
Thomas A. Durkin

A1425-1

FinanceFacts

A Monthly Publication on Consumer Financial Behavior AUGUST 1982

Savings By Sectors as Percentages of GNP



National Consumer Finance Association Chart

Source: Department of Commerce

On July 21, 1982 the Department of Commerce released its expected revisions of the National Income and Product Accounts of the United States. For the second time in eighteen months (and as predicted in last month's Finance Facts) personal savings in the National Income Accounts (NIPA savings) was revised upward for recent years. The Department's Bureau of Economic Analysis made the sharpest revisions to the savings estimate for 1981 and the first quarter of 1982, although saving in every year after 1977 was revised upward. NIPA savings in 1981 was raised from 5.3 percent of disposable personal income (personal income after taxes) to 6.4 percent. The Bureau's new estimate for 1982I was 6.6 percent of DPI, up from 5.5 percent estimated previously. The preliminary estimate for 1982II was also 6.6 percent. Since the long-term historical average for this measure is between 6 and 7 percent, it is even more difficult to conclude after the revision that personal saving has been declining relative to personal income. Of course, this does not deny that the NIPA savings rate was higher than in the early 1970's or that the economy might not benefit from still higher personal savings rates in the 1980's.

Saving is necessary in an economy to provide the (unconsumed) resources necessary for investment in capital assets. Since capital assets in the form of machinery, equipment, structures, and residences all contribute to economic productivity, growth, and greater real wealth, the importance of adequate savings in an economy is obvious. For this reason policy makers often recommend governmental actions aimed at increasing personal saving. But, personal saving is only one component of aggregate saving in the economy. The corporate business sector also saves in the form of undistributed corporate profits, and governmental bodies save when revenues exceed expenses. For a

(text continued on back page)

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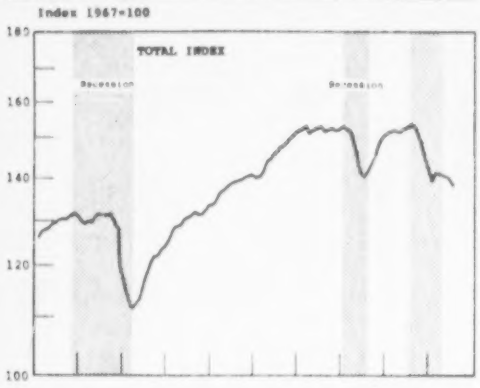
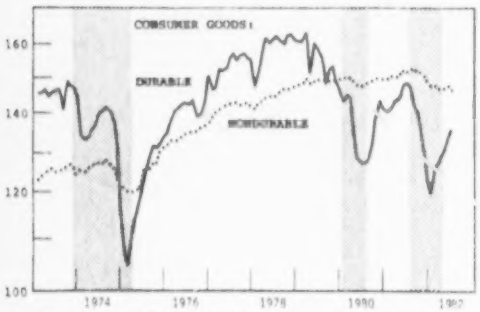
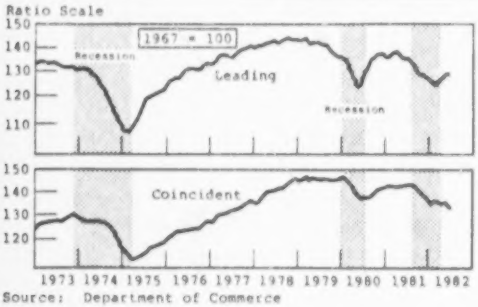
Index of
Industrial Production
by months (seasonally adjusted) 1973-1982





Source: Board of Governors of the Federal Reserve System

Composite Indexes
By Months 1973-1982



Source: Department of Commerce

INDUSTRIAL PRODUCTION

Industrial production declined an estimated 0.7% in June, following decreases of 1.1% in April and 0.6% in May based on revised data. In June, as in the two previous months, gains in output of consumer durable goods were offset by a sharp cutback in business equipment production. At 138.4 (1967=100), the total index for June was 10.1% below its recent peak in July 1981.

Consumer durable goods output increased 1.7% in June resulting from a sizeable (2.8%) advance in automobile products and a large increase in home goods. Nondurable goods output declined reflecting decreased output of most consumer staples.

CAPACITY UTILIZATION

Capacity utilization in manufacturing declined 0.6 percentage point in June to 69.8% and the operating rate for producers of industrial materials dropped 0.6 percentage point to 69.0%. The former was about 10 percentage points below and the latter about 12 percentage points below the year earlier levels and close to or below the 1975 lows. The operating rate for producers of durable goods materials declined 0.4 percentage points to 63.7%, the rate for producers of nondurable goods materials declined 0.8 percentage point to 72.4%.

LEADING ECONOMIC INDICATORS

The composite index of leading economic indicators was unchanged in June, based on preliminary data. The index increased 0.9% in May and 1.4% in April. The preliminary May estimate showed the index increased 0.3%. At a level of 127.9 (1967=100) this index remained at the highest point yet this year, but still 6.8% off the 1981 peak, 6.3% from the 1980 peak and 10.7% below the 1979 peak.

The composite index of coincident indicators, a monthly approximation of aggregate economic activity, decreased 0.9% in June to a level of 133.3 (1967=100), based on preliminary data. Revised data show this index increasing 0.4% in May and down 0.7% in April. The preliminary May estimate was a decrease of 0.2%. The June level puts this index at its lowest point since September 1977 when it stood at 132.6.

PRICE INDEXES

The Consumer Price Index for all Urban Consumers (CPI-U) rose 1.2% before seasonal adjustment in June to 290.6 (1967=100). Seasonally adjusted, the CPI-U rose 1.0% in June - the same as May and substantially more than the 0.3% average monthly rate for the 7-month period ended in April. About three-fifths of the June increase was due to higher prices for gasoline and houses. The medical care component also rose substantially. Moderate rates of increase were recorded for the food and beverage component.

The Producer Price Index for Finished Goods also moved up 1.0% in June on a seasonal adjusted basis. This followed four months of stable or falling prices and was the largest one month advance since March 1981. Intermediate goods prices rose 0.3% in June - the May increase was 0.1% and was declining in each of the three previous months. Of the June increase, energy goods accounted for about half.

GROSS NATIONAL PRODUCT

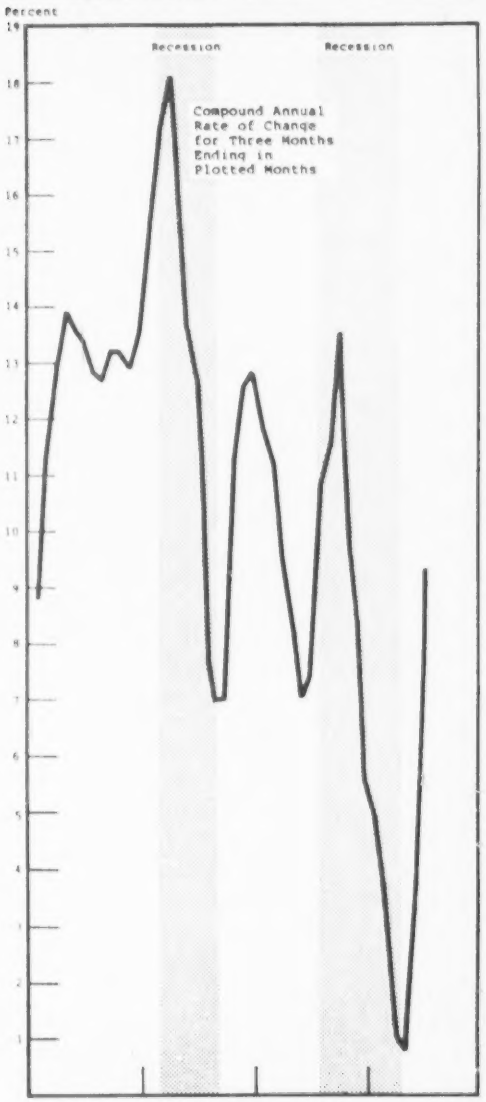
Real gross national product - the value of the total output of goods and services adjusted to remove price changes - increased 1.7% ($6.1 billion in 1972 dollars) in the second quarter of 1982. The change resulted from an $8.5 billion increase in real inventories, final sales declined $2.4 billion. In the first quarter of 1981, real GNP decreased 5.1% ($19.4 billion) based on more complete data. Current dollar GNP - the current market value of total output of goods and services without price adjustments - increased 7.1% ($51.9 billion) in the second quarter. The first quarter current-dollar GNP decreased 1.0% ($7.7 billion).

PERSONAL INCOME

Personal income increased $8.7 billion in June to a seasonally adjusted annual rate of $2,561.4 billion. In May, personal income increased $18.4 billion and in April it increased $15.9 billion, based on revised estimates. Personal outlays in June declined $10.4 billion to $2,012.7 billion. Revised estimates for May and April show personal outlays increased $29.1 billion and $12.9 billion respectively.

Gregory D. Luetscher

Change in
Consumer Price Index -
All Urban Consumers 1979-1982



Source: Department of Labor

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complete picture of saving all of these sources must be examined. Each of these components of total savings, scaled by Gross National Product, is presented in the chart for the 30-year period 1952-1981.

The chart shows that personal saving is the largest portion of total saving, followed by corporate saving. Saving by state and local governments is third in size, although it has only been substantial in the past decade. The fourth line in the chart is Federal government saving. It shows that the Federal component has only rarely been positive in the past 30 years. Thus, Federal "savings" is really dissavings, actually reducing total savings generated by the domestic economy.

Besides showing different levels, the components of domestic savings also exhibit diverse trends in recent years. While personal saving over the past decade has approximated its long-run relationship with GNP and has been only slightly below this average in the past few years, some other components have deteriorated. In particular, undistributed corporate profits have been battered by two recent recessions from levels in the late 1970's that were already low in comparison to many expansionary years in earlier business cycles. Likewise, the Federal fiscal picture has recently worsened sharply. Federal contributions to total savings have been negative in most of the past 30 years, but 5 of the 6 largest deficits in relation to GNP have occurred since 1974 (the only exception being 1958). Since deficits in 1973-74 in relation to GNP are forecast to be double the size of the 1980-81 deficits, the Federal government's negative impact on total savings will remain substantial. Although surpluses of state and local governments have been somewhat higher in the past few years than earlier, the increase is insufficient to offset the impact on total national savings of sharply enlarged Federal deficits. As a result, smaller savings in relation to GNP is available to finance machinery, equipment, residences, and other capital assets.

Thomas A. Durkin

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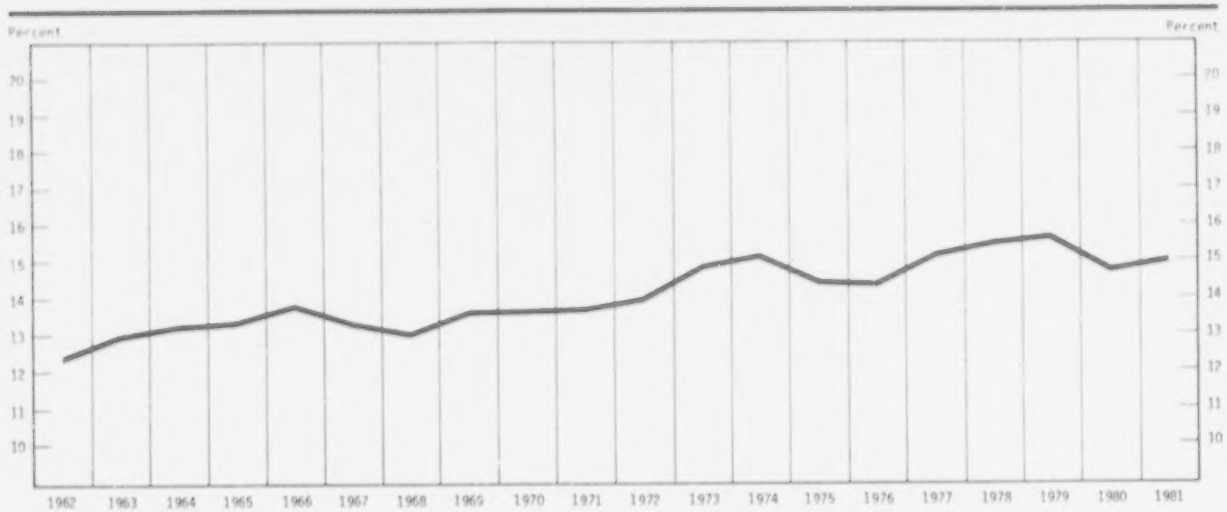
FinanceFacts

A Monthly Publication on Consumer Financial Behavior SEPTEMBER 1982

Total Debts as a Percent of Total Assets, Household Sector
1962 - 1981



National Consumer Finance Association Chart

Source: Federal Reserve System.

The attention often given in news reports to increases in households' debts could lead to the mistaken impression that the household sector is becoming poorer or frittering away its wealth. More careful reflection, though, produces the contrary conclusion that this is not the case. Net worth or wealth of an economic sector (as well as of an individual) increases through savings, and personal savings has been positive every year since 1933. While some observers may believe that domestic savings should be higher, and there may be debate about how to produce more savings, no one reasonably contends that household wealth has recently been declining.

An important source of information about wealth trends in various sectors of the domestic economy is an annual publication of the Federal Reserve Board titled Balance Sheets of the U.S. Economy. This report provides estimates of totals and major components of both assets and liabilities for the main sectors of the economy - households, farm business, nonfarm noncorporate business, nonfinancial corporate business, and private financial institutions. An important aspect of the report is that reproducible assets such as residences and durable goods are valued at replacement cost (net of straight-line depreciation) rather than at historical cost. Likewise, land holdings are stated at current market values. Tangible assets such as residences, durables, and land account for only slightly more than a third of total household sector assets, but using the replacement cost/current market price approach to valuing them produces a more realistic estimate of household net worth than the historical cost/purchase price method.

On this basis, total assets of the household sector grew from $699 billion at the end of 1945 to almost $11 trillon at year end 1981. The largest components

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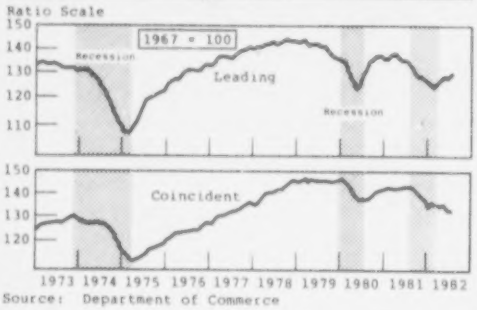
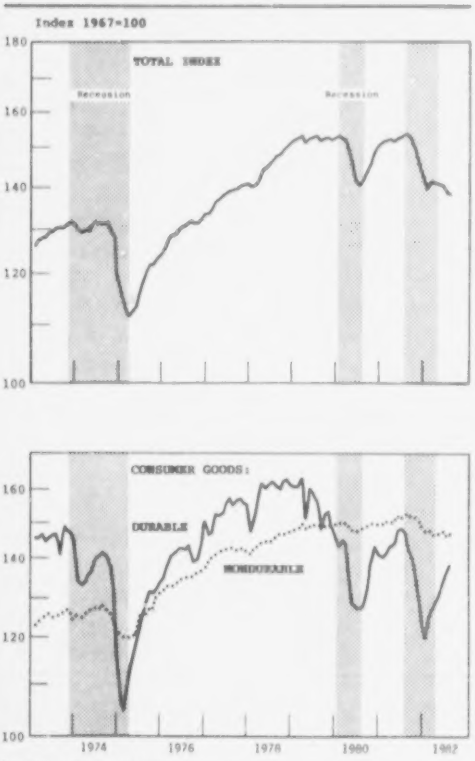
Composite Indexes By Months 1973-1982



Source: Department of Commerce

Index of Industrial Production

by months (seasonally adjusted) 1973-1982



Source: Board of Governors of the Federal Reserve System

LEADING ECONOMIC INDICATORS

The composite index of leading economic indicators increased 1.3% in July according to preliminary data. Through March 1982 this index had increased only twice in the preceding sixteen months and since has registered four consecutive increases. This index increased 0.3% in June and 0.7% in May following revisions, and 1.4% in April. The preliminary June estimate showed the index to be unchanged. At a level of 129.8 (1967=100) the index is almost equal to that of September 1981.

The composite index of coincident indicators, which is a monthly approximation of aggregate economic activity, decreased 0.3% in July based on preliminary data. Based on more complete data this index declined 1.3% in June and increased 0.7% in May. At 132.7 (1967=100) this index is now at a level just above that registered in September 1977 and 7% below a year ago.

CONSUMER INSTALLMENT CREDIT

In July, consumer installment credit outstanding amounted to $332.5 billion. On a seasonally adjusted basis, there was an increase of just over $0.6 billion in July. In June the increase was slightly less than $1.5 billion. The principal reasons for the very modest increase in July was an almost total lack of growth in automobile credit and a decline in the other consumer goods credit category. For the past several months the major component in the growth of consumer installment credit has been auto credit. In July revolving credit accounted for 90% of the monthly increase.

INDUSTRIAL PRODUCTION

Industrial production edged down in July by 0.1% following declines of 0.7% in each of the two preceding months. During July, the output of consumer goods increased 0.6% with durable consumer goods up 1.7% and nondurable consumer goods up very slightly. The increase in consumer durables reflected a sharp rise in automobile output - autos were assembled at an annual rate that was up about 12% from June. Of the other major components of the index, materials production remained unchanged, but sizeable (2.1%) reductions continued in the output of business equipment. At 138.1% of the 1967 average, the total index was 10.3% below a year earlier.

Gregory D. Luetscher

CONSUMER SECTOR INDICATORS

	1981				1982	
	I	II	III	IV	I	II
EMPLOYMENT, INCOME, AND SPENDING						
Employment - Household Survey [1]	100,125	100,784	100,654	100,043	99,554	99,740
Disposable Personal Income [2]	$ 1,958.7	1,996.5	2,060.0	2,101.4	2,117.1	2,154.5
Personal Consumption Expenditure [2]	$ 1,799.9	1,819.4	1,868.8	1,884.5	1,919.4	1,945.8
Personal Saving [2]	$ 105.9	122.0	134.4	158.6	139.1	149.4
CONSUMER INSTALLMENT CREDIT						
Total Outstanding [3]	$ 314.7	321.3	326.5	327.9	330.0	333.5
Percent Change	1.8	2.1	1.6	0.4	0.6	1.1
Ratio to Consumers' Liquid Assets (%)	18.6	18.6	18.3	17.8	17.5	--
Ratio: Repayments to Disposable Personal Income (%)	16.2	16.1	15.4	15.1	15.1	15.5
Market Share (%)						
Commercial Banks	46.1	45.5	44.8	44.8	44.8	44.2
Finance Companies	25.6	26.0	27.0	26.9	27.4	27.8
Credit Unions	14.2	14.3	14.3	13.8	14.0	13.8

1/ Thousands, seasonally adjusted
2/ Billions, seasonally adjusted annual rate
3/ Billions, seasonally adjusted

Source: Federal Reserve Board, Bureau of Labor Statistics, U.S. Department of Commerce, NCFA.

The above data are updates and revisions to data last presented in the June 1982 issue of Finance Facts. Estimates are revised periodically by the statistical agencies to incorporate methodological changes and new source data.

(text continued from first page)

were tangible assets ($4 trillion), liquid assets (currency, deposits, and money market mutual fund shares together totalling almost $2 trillion), corporate equities ($1 trillion) and equity in noncorporate business ($2 trillion). Predictably, total household sector liabilities also rose over the postwar period. Liabilities of only $34 billion at the end of 1945 rose to $1.6 trillion at the end of 1981. Among liabilities the major components were home mortgages and consumer installment credit, equalling $1 trillion and $333 billion, respectively, at year end 1981. Subtracting debts from assets produces estimates of net worth or wealth. Not surprisingly, considering the tremendous growth of household assets in the postwar period, household wealth has also grown steadily. Net worth of the household sector reached $9.1 trillion in 1981 up from only $665 billion in 1945.

The chart shows total household debts as a percent of assets over the past 20 years. Despite apparent widespread concern that household financial conditions have been deteriorating, trend is almost imperceptible despite the long time period. Debts increased over the period, but assets increased almost as rapidly on a percentage basis, although from a much larger base. As a result, the ratio of debts to assets moved up slightly but ranged only narrowly from 12.3 percent in 1962 to 15.6 percent in 1979. Stated conversely, the household sector's equity or net worth in its assets decreased only slightly from 87.7 percent in 1962 to 84.4 percent in 1979, a deterioration which hardly appears alarming. While this liability ratio has risen a few percentage points over the last 20 years, the chart shows there has been little change in the past decade and households' assets still exceeded debts at the end of 1981 by a factor of almost 7 to 1.

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A Monthly Publication on Consumer Financial Behavior OCTOBER 1982

Interest Rate Ceilings and Controls

The problem of high interest rates in recent years has produced a wide variety of suggestions offered as painless solutions. These suggestions have been as diverse as increasing monetary growth rates, decreasing monetary growth rates, raising taxes, lowering taxes, and becoming either more or less selective in tax policy. In such an environment, when even understanding the causes of high interest rates is difficult, it is not especially surprising to learn that some people have advanced interest rate ceilings or controls as seductively simple "solutions" to the interest rate problem. Although professional economists are virtually unanimous in their opposition to interest rate ceilings and controls, a number of interest-ceiling and control bills were introduced in the last session of Congress. Congress adjourned on October 1 without enacting any of these bills, but control schemes may surface again in the next Congress. For this reason it seems worthwhile to outline briefly the major economic arguments against such proposals.

First, the argument that controls will improve the economy suffers from a basic misconception that at least some credit use is nonproductive. Usually some element of private sector credit demand is cited as an example. However, private sector borrowers do not borrow to waste the resources; instead, they borrow to make investments in productive assets. Consumers invest in houses, automobiles, appliances, education, and medical care that provide flows of returns over time, and businesses invest in factories, machines, equipment, and inventories that provide investment returns to business. None of these should be considered nonproductive. Even borrowing for corporate takeovers (which may not limit credit availability for other purposes anyway, since sellers of securities receive cash which they can re-lend) is not necessarily nonproductive. Takeovers can eliminate poor management, can produce economies of scale, and even, in some cases, can prevent bankruptcies and significant losses. If any government borrowing is done for nonproductive purposes, there are political processes in place that are better choices than credit controls.

Second, credit controls and ceilings attempt to operate on symptoms rather than on underlying economic ills. Market interest rates are composed of the cost of forebearance (the ultimate lender's required real return), operating costs, a premium for risk (including a volatility premium), and a premium for expected inflation (compensation for being repaid in dollars of lower purchasing power). High interest rates indicate an economic ailment in one or more of these areas. Unfortunately, government policies have contributed to higher interest rates through each of these components of market rates. Inflationary expectations, which have been especially important, are likely to subside only slowly. Attempting to control rates without reducing inflation and inflationary expectations is not likely to be very successful because it amounts merely to attacking symptoms.

Third, below-market interest ceilings produce credit shortages. In fact, the impact of any below-market price ceiling is not to reduce the price of a good or service, but to create a shortage at the artificial price. One's memory need not be very long to remember the shortages and gas-station lines when gasoline prices were controlled. The same would occur in credit markets if below-market ceilings were the rule. Below-market price would encourage demand but limit supply causing shortages to occur. There would be little encouragement in knowing that the

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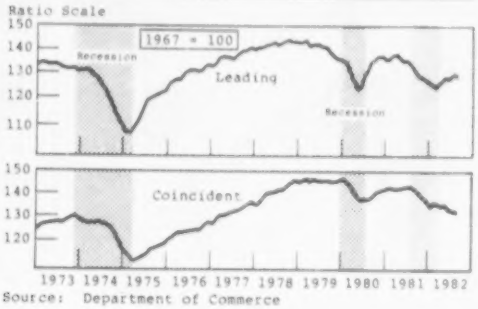
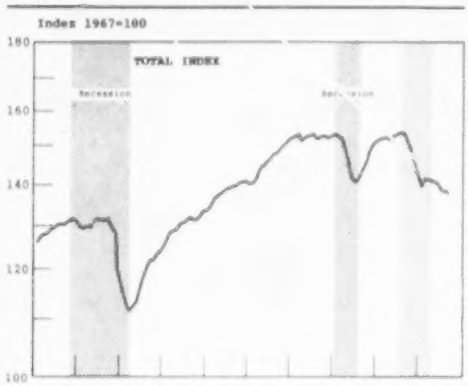
Composite Indexes By Months 1973-1982

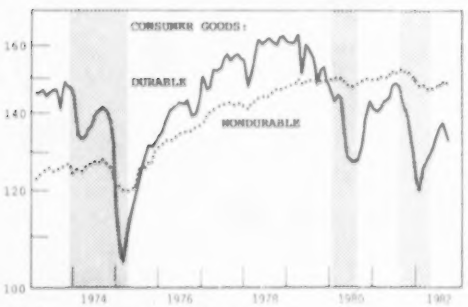


Source: Department of Commerce

Index of Industrial Production

by months (seasonally adjusted) 1973-1982





Source: Board of Governors of the Federal Reserve System

LEADING ECONOMIC INDICATORS

The composite index of leading economic indicators decreased 0.9% in August, based on preliminary data. The initial July increase of 1.3% was revised to an increase of 1.2%. The August decline comes after four consecutive monthly increases. Of the ten indicators available for August, five contributed to the decrease. Building permits contributed the greatest decline. Of the five increasing, money supply in 1972 dollars contributed the greatest increase. The composite index of leading indicators now stands at 128.6 (1967=100). The composite index of coincident indicators, which is a monthly approximation of aggregate economic activity, decreased 0.6% in August, following declines of 0.3% in July and 1.3% in June. This index now stands at 132.0 (1967=100).

CONSUMER INSTALLMENT CREDIT

In August, consumer installment credit outstanding amounted to $333.8 billion. On a seasonally adjusted basis there was almost no increase, less than $0.1 billion, during the month. In July the increase was $0.6 billion and in June $1.3 billion. In July auto credit showed a modest growth; in August automobile credit declined $0.4 billion with the other components of installment credit having only very minor increases. Among holders of installment credit, commercial banks, finance companies and retailers registered a combined decline of just over $0.5 billion (seasonally adjusted) during August.

INDUSTRIAL PRODUCTION

Industrial production declined an estimated 0.5% in August reflecting continued cutbacks in the production of business equipment and a sharp cut in output of motor vehicles. The estimates for both June and July were revised upward 0.2 percentage point, the June estimate of a 0.7% decline revised to a 0.5% decline and the July decline of 0.1% revised to show an increase of 0.1%. At 138.0 (1967=100), the August index was down 10.3% from its recent high in July 1981 and at its lowest level since May 1977. Output of consumer goods declined 1.2% in August. Auto assemblies were reduced more than 16% because auto production in recent months has exceeded sales, resulting in excess dealer inventories. Production of consumer goods other than autos declined only slightly in August. Output of construction supplies edged up again in August but remained more than 14% below a year ago.

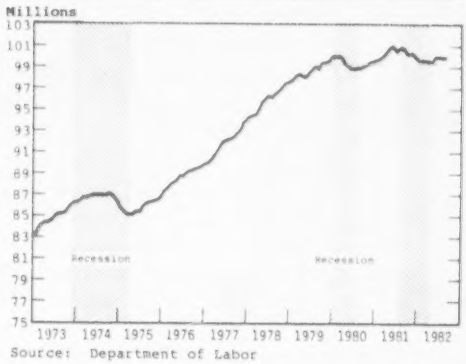
EMPLOYMENT SITUATION

The nation's unemployment rate was 10.1% in September the Bureau of Labor Statistics reported. In August the unemployment rate was 9.8%, about unchanged from July. Adult men accounted for most of the September increase in unemployment, after seasonal adjustment the jobless rate for men 20 years and over was 9.6%. The rates for adult women, 8.3%, and teenagers, 23.7%, were about unchanged. Joblessness among blue-collar workers was up 1.4% while unemployment among white-collar workers and service workers was unchanged in September.

The civilian labor force grew by 340,000 in September to 111.0 million seasonally adjusted. Virtually all of this increase occurred among adult men. Employment was virtually unchaged in September at 99.7 million, seasonally adjusted. Total employment has declined since July 1981 by only about 1 million seasonally adjusted and since June 1982 has fluctuated between 99.7 and 99.8 million.

Total Employment

By Months (Seasonally Adjusted) 1973-1982

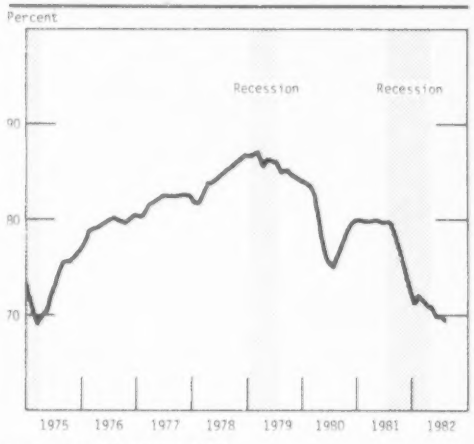


Source: Department of Labor

GROSS NATIONAL PRODUCT

Real gross national product - the nation's output of goods and services adjusted to remove price changes - increased at a 2.1% annual rate in the second quarter of 1982 based on revised estimates. This equates with a $7.7 billion annual increase in constant (1972) dollars. The preliminary estimate, as reported in the August 1982 issue of Finance Facts, was an increase of 1.7% ($6.1 billion). In the first quarter real GNP decreased at a 5.1% rate, or $19.4 billion. Current dollar GNP - the current market value of the nations output of goods and services - increased at a 6.8% rate ($49.7 billion) in the second quarter. The preliminary estimate showed a 7.1% ($51.9 billion) rate of increase.

Capacity Utilization - Total Manufacturing



Source: Federal Reserve Board

CAPACITY UTILIZATION

Capacity utilization in manufacturing declined 0.5 percentage point in August to 69.4%, its lowest rate since March 1975. Revised estimates indicate that this rate was unchanged for June and July at 69.9%. Producers of industrial materials operated at 68.5% of capacity in August, down 0.2 percentage point from July. The utilization rate for producers of durable goods materials declined 0.2 percentage point in August to 63.5%. The operating rate for producers of nondurable goods materials increased 0.2 percentage point to 70.8% reflecting higher output of textile and paper materials.

Gregory D. Luetscher

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price of credit were controlled if little or no credit were available at the ceiling price to those in need of it.

Fourth, credit shortages would be selective. Rationing would eliminate some borrowers from credit markets before others. Probably first to be eliminated would be newer and smaller businesses, farms, construction companies, and firms that are less financially stable. In other words, those likely to be eliminated first would be those most in need of access to credit. Also probably excluded would be those desiring credit with relatively large overhead costs per loan dollar, including consumer-credit and mortgage borrowers. Much later to be eliminated from the market would be financially strong major corporations and last would be the Federal government. Credit shortages and the resulting scramble for funds would undoubtedly produce calls for credit allocation programs to insure that scarce credit be made available "fairly," but which would produce a new set of economic problems.

Fifth, it is not clear that the bureaucratic machinery necessary to make and enforce credit allocation decisions could make better choices than a competitive marketplace. Even apart from the issue of freedom of choice, it does not seem safe to assume that government officials can make consistently better economic choices for citizens than the citizens can make for themselves.

Sixth, interest rate ceilings or controls that artificially hold down interest rates would harm savers, the nation's household sector. Contrary to popular belief the ultimate lenders in the economy are not financial institutions. Financial institutions are, of course, merely intermediaries borrowing from one group and lending to another. The ultimate lenders in financial markets are the members of the public themselves. In addition to buying securities directly from ultimate borrowers, the public lends when it places deposits in a depository institution, purchases life insurance policies, or increases its pension fund reserves. If returns on these assets were artificially held down, real wealth of the household sector would decline. The effect would be erosion of the real value of current and prior savings.

In sum, while interest rate ceilings and controls superficially seem attractive when rates are high, they offer no panacea. Instead, ceilings and controls do not address the causes of high rates, and they promise a new barrage of economic ailments. Instead of such questionable approaches to economic policy, balanced monetary and fiscal policies offer greater hope of long-term success in curing the nation's economic ills.

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